

May 3, 2012 - Mumbai

Facilities	Amount (Rs. Crore)	Rating
Unsecured, Taxable, Non Convertible Debenture (NCD) Issue	Rs.500 crore (Rs.400 crore with a green shoe option of Rs.100 crores)	SMERA A+(SO)*

* Credit enhancement on account of an unconditional and irrevocable guarantee from the Government of Haryana (GoH)

SMERA has assigned an '*in-principle*' rating of '**SMERA A+ (SO)**' – read as **A plus structured obligation** to The Haryana Vidut Prasaran Nigam Limited's (HVPNL) Rs. 500 crore non-convertible, unsecured, taxable debenture issue. The outlook is **Stable**. The rating draws core support from the GoH's unconditional and irrevocable guarantee to be extended towards timely payment of principal and interest on the NCD. The rating accordingly factors in the guarantor's credit risk profile. The rating also centrally factors in adherence to a specific, legal payment mechanism administered by the trustee of the NCD.

The rating is **provisional** and the final rating is subject to the execution of an unconditional and irrevocable guarantee to be extended by GoH for timely payment of interest and principal on the instrument and execution of a trust deed (with a SEBI registered trustee) which clearly outlines the payment mechanism, escrow mechanism and rights and obligations of various parties involved in the issuance.

The proceeds of the bond issue are proposed to be utilised towards on-lending to HVPNL's associates, Uttar Haryana Bijli Vitran Nigam Limited (UHBVNL) and Dakshin Haryana Bijli Vitran Nigam Limited (DHBVNL). Accordingly, HVPNL is required to get approvals from the regulator, the Board and other stakeholders for the issue and subsequent use of the proceeds of such bonds.

Haryana state's financial position is characterized by improving deficit parameters, low overall indebtedness, and satisfactory interest and debt coverage indicators. Haryana's fiscal deficit has improved sharply to 2.7 per cent of GSDP in 2010-11 (accounts) from 4.5 per cent a year ago. The revenue deficit has halved to 1.0 per cent from 2.0 per cent during the same period. The state's overall indebtedness (consolidated debt + guarantees to Gross State Domestic Product) stood at 19 per cent for 2010-11. Haryana's interest coverage ratio has improved to 1.4 times in 2010-11 as compared to 0.5 times a year earlier.

GoH's credit profile also benefits from healthy economic and financial infrastructure. A rising tertiary sector contribution adds buoyancy to tax revenues (51 per cent for FY 2010-11) and the state has one of the highest per capita incomes in the country.

The state's credit profile is however adversely affected by a high proportion of committed expenditure to total expenditure, thus limiting the room for further capital expenditure and requisite expenditure management. Similarly the volatile labour relations and deteriorating general

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law and order situation in the state could hamper the business sentiments in the state with consequential impact on its tax revenue and fiscal parameters.

Outlook: Stable

In SMERA's opinion, GoH's credit profile is underscored by its healthy economic and fiscal profile. SMERA expects GoH to continue to benefit from its healthy economic and fiscal profile. However, sustained improvement or deterioration in the fiscal and economic ratios of the state could lead to a revision of its outlook to either positive or negative.

About HVPNL

HVPNL (100 per cent Government of Haryana undertaking) is a transmission company having a monopoly in intra-state power distribution. The erstwhile Haryana State Electricity Board was unbundled in the year 1997 into two corporate bodies namely: Haryana Power Generation Company Limited (HPGCL) for the Generation of Power and Haryana Vidut Prasaran Nigam Limited (HVPNL) for the Transmission & Distribution of power within the state of Haryana. Later, in the year 1999, HVPNL was further segregated by carving out two more corporations namely: UHBVNL and DHBVNL as subsidiaries (currently associates). HVPNL has a shareholding of 41 per cent in UHBVNL and 37 per cent in DHBVNL respectively. Both entities are loss making and have negative net worth.

HVPNL receives power from generation companies, predominantly from HPGCL, which is further transmitted through its transmission network consisting of high tension lines and sub-stations to the distribution companies (discoms) namely: UHBVNL and DHBVNL.

The company has ownership interest in Bhakra Beas Management Board (BBMB) and IP Station of Indraprastha Power Generation Company Limited (IPGCL) in order to facilitate distribution of power to the North as well as South Zone of Haryana.

For FY 2010-11, HVPNL reported a net profit of Rs. 187.6 crores on a total income of Rs. 1264.5 crores as compared with a net profit of Rs. 105.7 crores on a total income of Rs. 1006.9 crores for FY 2009-10.

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