

Press Release

Haryana Vidyut Prasaran Nigam Limited (HVPNL)

14 July, 2017

Rating Reaffirmed



Total Instruments Rated*	Rs. 500.00 Cr.
Long Term Rating	SMERA A+ (SO**) / Stable (Reaffirmed)

*Refer Annexure for details

**Credit Enhancement in the form of Unconditional & Irrevocable Guarantee from the Government of Haryana (GoH)

Rating Rationale

SMERA has reaffirmed the long term rating of **SMERA A+ (SO) (read as SMERA A plus (Structured Obligation))** assigned to the Rs.500.00 crore Non-Convertible Debenture Issue by Haryana Vidyut Prasaran Nigam Limited (HVPNL). The outlook is '**Stable**'.

The proceeds of the NCD issue have been utilised for on-lending to HVPNL's associates – Uttar Haryana Bijli Vitaran Nigam Limited (UHBVNL) and Dakshit Haryana Bijli Vitaran Nigam Limited (DHBVNL). HVPNL has received approval from its Board of Directors and other stakeholders for the issue and subsequent use of the proceeds of such NCDs.

HVPNL was incorporated in 1997 by the Government of Haryana (GoH) to develop, maintain and run the power transmission infrastructure in Haryana. The erstwhile Haryana State Electricity Board (HSEB) was divided into two entities – Haryana Power Generation Corporation Limited and HVPNL in 1997 for undertaking generation of power and transmission and distribution of power respectively. In 1999, two entities – UHBVNL and DHBVNL – were established to undertake the distribution of power in the state of Haryana. Currently, HVPNL holds 41 per cent of the shares of UHBVNL and 37 per cent of the shares of DHBVNL.

The rating continues to draw support from the unconditional and irrevocable guarantee extended by the GoH towards the timely servicing of the interest and principal obligations for the NCD issue. The issuer has put in place a structured payment mechanism for ensuring timely servicing of its debt commitments throughout the currency of the NCD issue.

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 HVPNL and the Debenture Trustee. The NCD issue is secured by an Unconditional and Irrevocable Guarantee issued by the GoH. In case sufficient funds are not made available by HVPNL in the designated escrow account by T -4 days (T being the due date), the debenture trustee shall be required to invoke the state government guarantee. On invocation of the guarantee, GoH is required to fund the designated escrow account atleast three days prior to the due date, T (T - 3 days).

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

Ongoing support from the Government of Haryana (GoH): HVPNL, a wholly-owned undertaking of GoH, is 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 Haryana. SMERA believes that HVPNL shall continue to benefit from the financial, operational and managerial support received from GoH from time to time.

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

About the Government of Haryana (GoH)

As reported by the Comptroller & Auditor General (CAG), the Debt-to-Gross State Domestic Product (GSDP) ratio of Haryana stood at 17.13 per cent as on 31st March, 2016. The revenue deficit of the state as a proportion of the Gross State Domestic Product (GSDP) remained at 2.37 per cent in FY2016. The fiscal deficit to GSDP ratio of the state increased to 6.39 per cent in FY2016 primarily due to increase in capital spending.

Weaknesses:

Susceptibility of operating performance to offtake by discoms, timely realisation of receivables and Support from GoH: Major customers of HVPNL include power distribution companies (Discoms) in Haryana such as UHBVNL and DHBVNL. Since the credit profiles of these discoms are subdued, the timely realisation of receivables continues to be a key credit monitorable. HVPNL reported Gross Current Asset Days of 498 days in FY2016 as against 582 days in FY2015.

Certain recent policy initiatives like Ujwal Discom Assurance Yojna (UDAY) scheme are expected to support 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 Transmission & Distribution (T&D) losses.

HVPNL being an STU is required to undertake substantial capital expenditure in order to maintain, upgrade and expand the power infrastructure in the state of Haryana. HVPNL's Gross block (including Capital Work in Progress) increased by Rs. 629.68 crore in FY2014-15 and Rs. 471.03 crore in FY2015-16. A significant portion of this capital expenditure is funded by equity infusion/grants from GoH, government guaranteed debt instruments and borrowings from public financial institutions.

While the support from GoH is expected to continue over the medium term, any delay in equity infusion/grants will require HVPNL to take on additional debt to support the capital expenditure program. HVPNL is geared at 2.02 times as on 31 March, 2016 (as compared to 2.34 times as on 31 March, 2015) on account of total long term debt of Rs. 5,589.62 crore on 31 March, 2016 (against Rs 5,811.60 crore on 31 March, 2015). In terms of debt servicing capability, HVPNL reported comfortable Debt Servicing Coverage Ratio (DSCR) of 1.73 times in FY2016 vis-à-vis 1.57 times in FY2015. However, HVPNL continued to remain highly leveraged with Debt to EBITDA of 7.26 times in FY2016 as against 9.53 times in FY2015. Further, increase in gross current assets or any decline in operating cash flows may require further refinancing efforts by HVPNL.

Any sharp increase in debt could cause downward pressure in the credit metrics and further pressure on the cashflows of HVPNL. SMERA believes that HVPNL'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 GoH.

Susceptibility of the performance to changes in the regulatory framework: HVPNL's revenues are influenced by the regulatory framework governing the power sector. Revenues of transmission players like HVPNL are determined by state electricity regulatory commissions. The Haryana Electricity Regulatory Commission (HERC) 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 GoH
- Ownership of GoH
- Regulatory Environment

Analytical approach: SMERA has taken a standalone view of the above entity. The rating has been notched-up based on the presence of the aforementioned Structured Payment Mechanism.

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>
- State Government Support: <https://www.smera.in/criteria-gov.htm>

Outlook: Stable

SMERA believes that HVPNL will benefit from its natural monopoly in the bulk power transmission business in Haryana and continuing financial and operational support from GoH. The outlook may be revised to 'Positive' in case of improvement in the credit risk profile of HVPNL 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 GoH's credit profile.

About the Rated Entity

HVPNL reported Profit After Tax (PAT) of Rs. 153.99 crore on operating income of Rs. 1,714.99 crore in FY2015-16 as against net loss of Rs. 8.42 crore on operating income of Rs. 1,396.06 crore in FY2014-15. The consolidated net cash accruals (Profit after Tax plus Depreciation) stood at Rs. 460.16 crore in FY2016 as against Rs. 277.84 crore 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	FY2018			FY2017		FY2016		FY2015	
	Scale	Amount (Rs. Cr.)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Proposed Non-Convertible Debentures	LT	89.10	SMERA A+ (SO)/Stable (Reaffirmed)	26 Apr, 2016	SMERA A+ (SO)/Stable (Reaffirmed)	-	-	20 Mar, 2015	SMERA A+ (SO)/Stable (Reaffirmed)
Non-Convertible Debentures	LT	410.90	SMERA A+ (SO)/Stable (Reaffirmed)	26 Apr, 2016	SMERA A+ (SO)/Stable (Reaffirmed)	-	-	20 Mar, 2015	SMERA A+ (SO)/Stable (Reaffirmed)

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

Name of the Instruments	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Non-Convertible Debentures	29-May, 2012	9.79%	29-May-2024	410.90	SMERA A+ (SO)/Stable (Reaffirmed)
Proposed Non-Convertible Debentures	N.A	N.A	N.A	89.10	SMERA A+ (SO)/Stable (Reaffirmed)

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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