

Press Release

Haryana Vidyut Prasaran Nigam Limited

September 26, 2019



Rating Reaffirmed and Withdrawn

Total Facilities Rated*	Rs. 1430.00 Cr.
Bank Facilities Rated*	Rs. 930.00 Cr.
Long Term Rating	ACUITE A+ (CE**) / Outlook: Stable
Short Term Rating	ACUITE A1 (CE**)
Total Instruments Rated*	Rs. 500.00 Cr.
Long Term Rating	ACUITE A+ (CE**) / Outlook: Stable

* Refer Annexure for details

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

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE A+ (CE)**' (**read as ACUITE A plus (Credit Enhancement)**) on the Rs. 880.00 crore and the short-term rating of '**ACUITE A1 (CE)**' (**read as ACUITE A one (Credit Enhancement)**) on the Rs. 50.00 crore bank facilities of Haryana Vidyut Prasaran Nigam Limited (HVPNL). The outlook is '**Stable**'.

Acuité has also reaffirmed the long-term rating of '**ACUITE A+ (CE)**' (**read as ACUITE A plus (Credit Enhancement)**) on the Rs. 500.00 crore to the non-convertible debentures of Haryana Vidyut Prasaran Nigam Limited. The outlook is '**Stable**'.

Acuité has also Withdrawn the long term rating of '**ACUITE A+ (CE)**' (**read as ACUITE A plus (Credit Enhancement)**) on the Rs. 100.00 crore bank facilities of HVPNL.

HVPNL was incorporated in 1997, by the Government of Haryana and the transmission and distribution businesses were transferred by erstwhile Haryana State Electricity Board to HVPNL in 1998. In 1999, the distribution business of HVPNL was transferred to Uttar Haryana Bijli Vitran Nigam Limited (UHBVNL) in the North Zone & Dakshin Haryana Bijli Vitran Nigam Limited (DHBVNL) in the South Zone.

HVPNL is primarily engaged in developing and maintaining adequate infrastructure for power transmission to support distributors of power in the State of Haryana.

Government of Haryana holds 99.9 per cent in HVPNL and is strategically important to the Government of Haryana as its forms the backbone of the power sector infrastructure for the state.

Standalone (Unsupported) Rating: ACUITE BB+/ Stable

Analytical Approach

Acuité has adopted a standalone approach, while assessing the business and financial risk profile of HVPNL and has notched up the rating on the back of benefits emanating from the ownership by Government of Haryana. GoH's financial support to HVPNL is in the form of its ~99.9 per cent equity ownership and it's Guarantee/Letter of comfort for certain borrowings of HVPNL. Besides financial support, GoH also extends managerial support through Board representation. Acuité has also considered the presence of structured payment mechanism for ensuring timely servicing of the rated debentures.

Key Rating Drivers

Strengths

- **Continued support from GoH and Presence of structured payment mechanism**

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. The company is the sole bulk power transmission company in Haryana. The current managerial board comprises Mr. Trilok Chand Gupta, IAS (Chairman), Mr. Anurag Agarwal, IAS (Managing Director) along with other professionals and bureaucrats representing Government of Haryana.

The company holds business license issued by HERC for Transmission & Bulk supply of Power in Haryana and primarily provides transmission service to the State Utilities such as Uttar Haryana Bijli Vitran Nigam Limited, Dakshin Haryana Bijli Vitran Nigam Limited, Railways amongst others, hence proving its strategic importance towards the state of Haryana.

Since the support from GoH is central to the rating, the credit profile of Haryana state is of key importance. Any significant changes in credit profile of GoH will be key rating sensitivity. Haryana state's fiscal deficit stood at 2.9 per cent of the GSDP for 2018-19 (RE). The outstanding debt of Haryana state as a percentage of GSDP remained at 22.2 per cent for 2018-19 (RE) and 22.3 percent for 2017-18. Any adverse movement in fiscal metrics of GoH is likely to have a bearing on the Haryana government's support to the entities like HVPNL, for whom it is obligated to extend support either on account of an explicit support arrangement or an implicit understanding with the lenders.

Besides the state government support, the NCDs are secured by presence of Structured Payment Mechanism (SPM). The presence of SPM will act as a cash tapping mechanism and ensure adequate funds in the escrow account. The rating centrally assumes adherence to the proposed 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 at least three days prior to the due date, T (T - 3 days). Acuité has based its rating on the premise that there will be a continued adherence to the aforementioned SPM by HVPNL and monitoring by the Debenture Trustee.

Acuité believes that HVPNL will continue to benefit from continuous financial and managerial support received from GoH. Further, the state ownership by GoH has strengthened HVPNL's ability to raise funds from banks and financial institutions at competitive pricing.

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.

Certain recent policy initiatives like Ujwal Discom Assurance Yojna (UDAY) scheme have supported 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 Transmission & Distribution (T&D) losses.

HVPNL being a State Transmission Utility (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. 479.4 crore in FY 2018-19. 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 delays in equity infusion/grants will require HVPNL to take on additional debt to support the capital expenditure program. HVPNL is geared at 1.2 times as on 31 March, 2019 as compared to 1.5 times as on 31 March, 2018. The gearing improved on account of equity infusion by GoH of Rs. 646.5 crore during FY 2019 resulting in total equity of Rs. 3259.3 crore as on March 31, 2019 as compared to Rs. 2612.7 crore as on March 31, 2018. Total

borrowings reduced to Rs. 5106.8 crore as on 31 March, 2019 against Rs 5329.7 crore as on 31 March, 2018. The continuous support from Government of Haryana by way of equity infusion has supported HVPNL's capital expenditure initiatives resulting in healthy availability factor of 99.8 percent for the month of July, 2019. In terms of debt servicing capability, HVPNL reported Debt Service Coverage Ratio (DSCR) of 1.4 times in FY 2019 vis-à-vis 1.5 times in FY 2018. the company's gross current asset (GCA) days improved to 69 days for FY 2019 as against 113 days for FY 2018. This is primarily on account of timely realization from debtors. Any increase in gross current assets or any decline in operating cash flows may require further refinancing efforts by HVPNL.

Acuité believes that HVPNL's credit profile will be influenced by its ability to manage its receivables effectively along with 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) considers 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. Presently the company benefits from healthy return on capital employed (ROCE) of 9.2 percent as on March 31, 2019.

Acuité believes that significant changes in the regulatory environment will impinge on the credit profile of the company.

Rating Sensitivities

- Credit profile of GoH
- Changes in regulatory environment

Material Covenants:

None

Liquidity position: Adequate

The liquidity profile of the company is adequate as characterized by sufficient cushion in accruals of Rs. 756.4 crore as against repayment obligation of Rs. 467.9 crore and moderate cash balance of Rs. 32.1 crore. The company's working capital is efficiently managed with GCA of 69 days in FY 2019 which is on account of healthy realization of receivables. The company's gearing stood at 1.2 times as on March 31, 2019 which provides sufficient headroom to raise additional debt for its capex plans. The company has working capital line of Rs. 830.00 crore which is marginally utilized for seven months ended July 2019. Liquidity of HVPNL has been supported by way of equity infusion at regular intervals by GoH.

Acuité believes that the liquidity of the company is likely to remain adequate over the medium term.

Outlook: Stable

Acuité believes that HVPNL will benefit from its natural monopoly in the bulk power transmission business in Haryana and strong support from Government of Haryana. The outlook may be revised to 'Positive' in case of healthy growth in scale and profitability of the HVPNL along with improvement in credit profile of GoH. 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 - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	2,176.7	2,027.9	1,721.8
EBITDA	Rs. Cr.	1,060.4	1,100.3	1,037.2
PAT	Rs. Cr.	358.6	420.2	299.9
EBITDA Margin	(%)	48.7	54.3	60.2
PAT Margin	(%)	16.5	20.7	17.4
ROCE	(%)	9.2	11	9.7
Total Debt/Tangible Net Worth	Times	1.2	1.5	1.9
PBDIT/Interest	Times	2.8	2.6	2.1
Total Debt/PBDIT	Times	4.8	4.8	5.5

Gross Current Assets (Days)	Days	69	113	79
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Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Infrastructure Entities: <https://www.acuite.in/view-rating-criteria-14.htm>
- State Government Support: <https://www.acuite.in/view-rating-criteria-26.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-17.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
24-Oct-18	Cash Credit	Long term	80.00	ACUITE A+/Stable (Assigned)
	Cash Credit	Long term	100.00	ACUITE A+/Stable (Assigned)
	Cash Credit	Long term	200.00	ACUITE A+/Stable (Assigned)
	Cash Credit	Long term	100.00	ACUITE A+/Stable (Assigned)
	Cash Credit	Long term	200.00	ACUITE A+/Stable (Assigned)
	Cash Credit	Long term	200.00	ACUITE A+/Stable (Assigned)
	Letter of credit	Short Term	50.00	ACUITE A1 (Assigned)
	Non-Convertible Debentures	Long term	410.90	ACUITE A+(SO)/Stable (Reaffirmed)
12-Oct-18	Proposed Non-Convertible Debentures	Long term	89.10	ACUITE A+(SO)/Stable (Reaffirmed)
	Non-Convertible Debentures	Long term	410.90	ACUITE A+(SO)/Stable (Reaffirmed)
14-July-17	Proposed Non-Convertible Debentures	Long term	89.10	ACUITE A+(SO)/Stable (Reaffirmed)
	Non-Convertible Debentures	Long term	410.90	ACUITE A+(SO)/Stable (Reaffirmed)
26-Apr-16	Non-Convertible Debentures	Long term	410.90	ACUITE A+(SO)/Stable (Reaffirmed)
	Proposed Non-Convertible Debentures	Long term	89.10	ACUITE A+(SO)/Stable (Reaffirmed)

***Annexure – Details of instruments rated**

ISIN	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
-	Cash Credit	Not Applicable	Not Applicable	Not Applicable	80.00	ACUITE A+ (CE)/Stable (Reaffirmed)
-	Cash Credit	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A+ (CE)/Stable (Reaffirmed)
-	Cash Credit	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE A+ (CE)/Stable (Reaffirmed)
-	Cash Credit	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A+ (CE)/Stable (Withdrawn)
-	Cash Credit	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE A+ (CE)/Stable (Reaffirmed)
-	Cash Credit	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE A+ (CE)/Stable (Reaffirmed)
-	Proposed Facility	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A+ (CE)/Stable (Reaffirmed)
-	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A1 (CE) (Reaffirmed)
INE535N08015	Non-Convertible Debentures	29-May-2012	9.79%	29-May-2024	410.90	ACUITE A+ (CE)/Stable (Reaffirmed)
-	Proposed Non-Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	89.10	ACUITE A+ (CE)/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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