

RATING RATIONALE

13 Dec 2019

Rajasthan Rajya Vidyut Utpadan Nigam Ltd. (RRVUNL)

Brickwork Ratings Revises the ratings for the Bonds/ Non-Convertible Debentures issue of Rs.1000.00 Crs of Rajasthan Rajya Vidyut Utpadan Nigam Ltd. (RRVUNL)

Particulars

Facilities/ Instrument**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (Dec 2018)	Present
NCD/Bonds	550.00	550.00	Long Term	BWR A+(SO) (Stable)	BWR A-(CE) (Stable) Downgraded
NCD/Bonds	300.00	300.00	Long Term		
NCD/Bonds – Proposed	150.00	150.00	Long Term		
Total	1000.00	1000.00	INR One Thousand Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Details of Bank Loan facilities/NCD/Bonds/Commercial Paper is provided in Annexures-I&II

The suffix SO has been replaced with CE in compliance with the guidelines of SEBI regarding ratings deriving credit enhancement from third party support.

The Rating is based on Credit Enhancement (CE) in the form of “Unconditional and Irrevocable Guarantee” provided by Government of Rajasthan for the bonds and bank loan facilities.

Unsupported (Standalone) rating as assessed by BWR without considering the Credit Enhancement is BWR C.

RATING ACTION / OUTLOOK

The rating revision has, inter alia, factored the stressed financial position of the Government of Rajasthan (GoR), which has extended the unconditional & irrevocable guarantee for the Bonds/NCD. State's own tax revenues is 6.72% of GSDP in 2018-19 (RE) which is higher than the actuals of 6.15% in 2017-18. This implies that growth in collection of taxes has been marginally slower than the growth in the economy. Total receipts for 2019-20 are budgeted to be Rs 2,26,314 Crs, an increase of 10.25% as compared to the revised estimate of 2018-19. In 2018-19, total receipts are estimated to fall short of the budgeted estimate by Rs 3,031 Crs (1.46%). Total expenditure for 2019-20 is budget estimated to be Rs 2,31,655 Crs, a 9.14% increase over the revised estimate of 2018-19. Revenue deficit for the next financial year is budgeted at Rs 23,304 Crs, or 2.52% of the GSDP. Fiscal deficit is budgeted at Rs 32,678 Crs (3.54% of GSDP). State's Outstanding liabilities are expected at 37.22% of the GSDP or Rs.3,43,909 Crs. Guarantees outstanding stood at 6.68% of GSDP, which is above the prescribed levels as per FRBM.

The rating continues to factor, track record of the management, and escrow mechanism in place for transfer of funds to the designated account prior to the due date. The ratings further draw comfort from the fact that RERC has allowed increase in power tariffs regularly since September 2011, which has helped the Discoms to pay their dues to generation company, and its generation capacities, catering ~50%-60% of the state's power requirements. However, the rating is constrained by continuously increasing and high debt levels, low gross PLF (down from 54.00% in FY18 to 51.21% in FY19), delays in servicing debt obligations to PFC and REC (non-guaranteed debt), continuous debt funded capital expenditure plans, high receivables from distribution companies, state's rising fiscal deficit and continuing support to DISCOMs from the state government which is expected to further strain the state's finances.

Outlook for the company, remains Stable, considering the stable revenue generation from power generation (sale of power), steady progress in ongoing capital expenditure (mostly tied-up) and generation of adequate cash accruals from current operations.

Going forward, the ability of the company to improve its PLF on a sustained basis, improve its profitability, reduce receivables from Discoms (which was ~Rs.20088 Crs in FY19 and increased to Rs.23,078 Crs in Sep'19), the meet the Capital Expenditure (CapEx) requirements and ensure sustained comfortable gearing levels and timely servicing of debt through adequate cash generation will be the key rating sensitivities. Also, improvement of the fiscal position and indebtedness of Rajasthan Government as against the GSDP will be other key factors. The Outlook may be revised to "Positive" if PLF improves, there is reduction of receivables from Rajasthan Discoms from sale of power and there is increase its operating revenues and profitability and completion of additional capacities providing higher revenues and cash accruals or it may be revised to "Negative", if the company fails to show profitability, there is reduction in PLF, there are delays in implementation the ongoing projects, generates lower than estimated revenues and there is further deterioration in the fiscal profile and debt levels for the state.

KEY RATING DRIVERS

Credit Strengths:

Improved Generation capacities: RRVUNL had total installed capacity of various Thermal and Hydel Power generation of 7027.35 MW as of Sep'19. It had generated 15,800.15 MU with a gross PLF of 51.21% as of FY19 as compared to 54.00% in FY18. This was primarily due to closure of Giral Lignite Power plant. As present, total demand for Rajasthan State is ~10,290-10,590 MW with an exchange price of 2.69 per unit. It has 20,490.54 MW of declared capacity with 73.67% of system availability. At present implementation of Suratgarh Supercritical plant (Unit 7&8; 2x660 MW), is in process and expected to achieve COD by Dec'19 & Mar'20 respectively.

Parent Support and Liquidity Position: The company is 100% owned by the Government of Rajasthan (GoR) and gets time to time support from the State Govt. in terms of Grants and equity support to fulfil its Capital Expenditure and funding requirements. The company is generating poor cash accruals to funds its debt repayment and interest servicing and shows high dependence upon GoR towards debt servicing. It has received Rs.392.53 Crs as of FY19 by way of equity from GoR.

Coal Supply:

Ministry of Coal, Govt. of India has allotted 'Parsa East and Kente Basan' Coal Blocks to RRVUNL in Chhattisgarh state for KTPS, SECL (Korea-Rewa & Korba) & NCL (Singrauli) for other plants.

Moderate financial risk profile of the State (GoR):

Total receipts for 2019-20 have been budgeted to be Rs 2,26,314 Crs, an increase of 10.25% as compared to the revised estimate of 2018-19. In 2018-19, total receipts have been estimated to fall short of the budget estimate by Rs.3,031 Crs (1.46%). Total expenditure for 2019-20 is budgeted at Rs.2,31,655 Crs, a 9.14% increase over the revised estimate of 2018-19. Revenue deficit for the next financial year is budgeted at Rs.23,304 Crs, or 2.52% of the GSDP. Fiscal deficit is budgeted at Rs.32,678 Crs (3.54% of GSDP). Rajasthan State total GST revenue (including central transfers) is estimated to be Rs 29,000 Crs in 2019-20, an increase of 23.40% over the revised estimate of 2018-19. GST to total tax revenues increased to 39.23% as compared to 37.96% 2019 RE. Revenue deficit/GSDP deteriorated further (-2.67%) in 2019 RE from (-2.22%) in 2018 Actuals.

State's Socio, economic and demographic Profile:

Rajasthan is a home to 7.41 crore people (estimated as on 2016) accounting for ~5.5% of India's population and seventh largest by population. The State's population has grown by 8.18% during the last five years, and its population density has risen from 165 in 2001 to 200 in 2011, indicating an CAGR increase of about 2.16%. The labour Force Participation Rate is 40.50% and of the total workers in the State. The literacy rate of the State is 67% in 2011 which is lower the National average of 74.04 percent. The total road network of NH (8,972 kms), SH, and district roads is about 2,26,854 km, with a density of 66.29 km per 100 sq. kms. The total installed power generation capacity is 21,832.94 MW, of which 7,573.83 MW under state owned and 3,017.10 MW central sector and rest of 11,242.01 MW under private sector projects. AT&C losses are at ~27.44% for the state as of Oct' 19.

Credit Risks:

Increased Receivables from Rajasthan Discoms: RRVUNL's receivables have increased to Rs.18410.39 Crs as on FY19 from Rs.11240.60 Crs as on FY18 and further it has increased to Rs.20088.04 Crs as on Sep'19. This was mainly due from Rajasthan Discoms (JVVNL, AVVNL and JdVVNL) towards sale of power.

Debt Funded Capital Expenditure: The Company is continuously investing in debt funded generation assets, which would result in high debt burden on the company. However, the Government has also been providing support in terms of equity infusion/grants towards these Capital Expenditure requirements. Currently its Debt Equity ratio is at 7.79x as on FY19, which is expected to reduce gradually over the years.

Continuous delays in servicing non-guaranteed debt obligation:

The company's liquidity position remains poor, and continuously showing delay in serving its non-guaranteed debt. This was primarily due non-receipt of high receivables from Discoms.

High level of outstanding liabilities by which unable to comply fiscal consolidation targets:

States outstanding liabilities are estimated at 37.22% of the GSDP or Rs.3,43,909 Crs and its guarantees outstanding stood at 6.68% of GSDP, which is above the FRBM norms. Guarantees including Debt to GSDP stood at 39.90% in 2019 R.E.

Widening Revenue deficit:

State's revenue deficit widened in FY19 (~50% increase over last year) and fiscal deficit is at 3.19% of GSDP. State's Revenue deficit for the next financial year is estimated at Rs 23,304 Crs, or 2.52% of the GSDP. Fiscal deficit is budgeted at Rs 32,678 Crs (3.54% of GSDP).

High AT&C losses for the state:

Overall AT&C losses stood at 27.44% for the State of Rajasthan as of Oct'19 and ACS-ARR gap is Rs.0.64/unit.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale). Apart from considering the "Unconditional and Irrevocable Guarantee" provided by Government of Rajasthan for the bonds. BWR has taken a consolidated view on the operational and financial performance of the company while arriving at the rating.

RATING SENSITIVITIES

Going forward, the ability of the company to improve PLF on a sustained basis, improve its profitability, reduce receivables from Discoms (which was ~Rs.20088 Crs in FY19 and increased to Rs.23,078 Crs in Sep'19), meet the Capital Expenditure (CapEx) requirements and ensure sustained comfortable gearing levels will be the key rating sensitivities. Also, ability to improve the fiscal position and indebtedness of Rajasthan Government as against the GSDP will be other key factors.

Positive: The Outlook may be revised to "Positive" if PLF improves, there is reduction in receivables from Rajasthan Discoms towards sale of power and increase in operating revenues and profitability and additional capacities are added providing higher revenues and cash accruals.

Negative: The Outlook may be revised to "Negative", if the company fails to improve profitability, continue to generate low PLF, delays in implementation the ongoing projects and generate the estimated revenues.

LIQUIDITY POSITION

The Liquidity of the company remains poor with Rs.1672.91 Crs cash accruals generated during FY19 as against debt repayment of Rs.2390.81 Crs in FY18 and Rs.4079.61 Crs in FY19. Therefore, it has high dependence on GoR towards meeting its debt obligations. The cash and cash equivalents as on FY19 were remain low at Rs.32.53 Crs.

COMPANY PROFILE

RRVUNL was established in the year 2000 by Government of Rajasthan*GOR) under the provision of Rajasthan Power Sector Reforms Act, 1999. RRVUNL is the state power generating utility and has been entrusted with the job of development of power projects under state sector, in the state along with operation and maintenance of state-owned power stations.

RRVUNL supplies power to state DISCOMs namely, Jaipur Vidyut Vitaran Nigam Ltd. (JVVNL), Ajmer Vidyut Vitaran Nigam Ltd. (AVVNL) and Jodhpur Vidyut Vitaran Nigam Ltd. (JdVVNL). It procures coal from subsidiaries of Coal India Ltd. (CIL) apart from captive coal block(s) in the state of Chhattisgarh. Besides, it has fuel supply agreement with ONGC, GAIL and Focus Energy for

Supply of Gas. It has a total installed capacity of 7027.35 MW as of Sep'19 with generation of 15,800.15 MW.

KEY FINANCIAL INDICATORS (in INR Crs)

Total Operating revenues (on a consolidated basis) have grown by 13.00% to Rs.14450.30 Crs in FY19 from Rs.12787.98 Crs in FY18, due to increase in sale of power in accordance with RERC tariff regulations. However, the company's profitability has declined from Rs.782.15 Crs in FY18 to Rs.276.07 Crs in FY19, on account of high operating and interest costs. EBITDA marginally improved by 0.90% to Rs.4860.84 Crs in FY19. Total Debt stood at Rs.45519.80 Crs (increased from Rs.38938.64 Crs as on FY18), with Net-worth of Rs.5845.43 Crs as on FY19.

FINANCIAL INDICATORS – ISSUER (Consolidated)

Key Parameters	Units	FY18	FY19
Result Type		Audited	Audited
Operating Income	Rs. Crs	12787.98	14450.30
EBITDA	Rs. Crs	4817.40	4860.84
PAT	Rs. Crs	782.15	276.07
Tangible Net-Worth	Rs. Crs	5252.03	5845.43
D: E Ratio	Times	7.41	7.79
Current Ratio	Times	1.67	1.89

KEY FINANCIAL INDICATORS (in INR Crs) – GoR (Guarantee Provider)

Rajasthan Govt.'s total receipts for 2019-20 are estimated to be Rs 2,26,314 Crs, an increase of 10.25% as compared to the revised estimate of 2018-19. In 2018-19, total receipts are estimated to fall short of the budgeted estimate by Rs 3,031 Crs (1.46%). Total expenditure for 2019-20 is budget estimated to be Rs 2,31,655 Crs, a 9.14% increase over the revised estimate of 2018-19. Revenue deficit for the next financial year is targeted at Rs 23,304 Crs, or 2.52% of the GSDP. Fiscal deficit is budgeted at Rs 32,678 Crs (3.54% of GSDP).

State's own tax revenues is 6.72% of GSDP in 2018-19 (RE) which is higher than the actuals of 6.15% in 2017-18. Rajasthan's total GST revenue (including central transfers) is budgeted to be Rs 29,000 Crs in 2019-20, an increase of 23.40% over the revised estimate of 2018-19.

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

The Bonds are backed by Unconditional and Irrevocable guarantee of Government of Rajasthan.

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: NA

RATING HISTORY

Instrument	Current Rating			Rating History		
	Tenure (Long Term/ Short Term)	Amount (₹ Cr)	Rating	Dec 2018	Nov 2017	Oct 2016
Bonds/NCD	Long Term	1000.00	BWR A-(CE) (Stable) Downgraded	BWR A+(SO) (Stable)	BWR A+(SO) (Stable)	BWR A+(SO) (Stable)
Total		1000.00	INR One Thousand Crores Only			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)

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Rajasthan Rajya Vidyut Utpadan Nigam Ltd. (RRVUNL)

**ANNEXURE I
INSTRUMENT (NCD/Bonds) DETAILS**

Instrument	Issue Date	Amount in Crs. (Outstanding)	Coupon Rate	Maturity Date	ISIN Particulars
NCD/Bonds	24 Dec 2014	550.00	9.00%	24 Dec 2026	INE891F08018
NCD/Bands	26 Mar 2015	300.00	8.74%	26 Mar 2027	INE891F08026
NCD/Bonds	Proposed	150.00	NA	NA	NA
Total		1000.00	INR Two Thousand Crores Only		

**ANNEXURE II
Entities included in Consolidated Financials – RRVUNL**

Name of Entity	% ownership	Extent of consolidation	Rationale for consolidation
Chhabra Power Ltd.	100%	Proportionate Method	Subsidiary
Dholpur Power Ltd.	100%	Proportionate Method	Subsidiary
Giral Lignite Power Ltd.	100%	Proportionate Method	Subsidiary
JV Companies			
Persa Kente Collieries Ltd.	26%	Equity Method	Associate Company
Rajasthan Collieries Ltd.	26%	Equity Method	Associate Company



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