

## RATING RATIONALE

20 Nov 2023

### HIMACHAL PRADESH STATE ELECTRICITY BOARD LIMITED

Brickwork Ratings reaffirms/assigns the ratings to the enhanced bank loan facilities of Rs. 5474.01 Crs. and reaffirms the rating for the NCD/bonds issue of Rs. 443.38 Crs. of Himachal Pradesh State Electricity Board Limited.

#### Particulars

Facility**	Previous Amount (Rs. Crs.)	Present Amount (Rs. Crs.)	Tenure	Previous Rating (22 Sep 2022)	Present Rating* <sup>@</sup>
Fund Based Term Loan (Fresh)	-	250.00	Long Term	-	BWR BBB+/Stable Assignment
Fund Based Term Loans	4439.00	4502.04		BWR BBB+/Stable Reaffirmation	BWR BBB+/Stable Reaffirmation
Cash Credit	250.00	250.00		BWR A (CE)/Stable Reaffirmation	BWR A (CE)/Stable Reaffirmation
Fund Based Term Loans	421.94	379.83		BWR BBB+/Stable Reaffirmation	BWR BBB+/Stable Reaffirmation
Fund Based Term Loan	122.78	92.14			
<b>Total</b>	5233.72	5474.01	<b>Rupees Five Thousand Four Hundred Seventy Four Crores and One Lakh Only</b>		

The ratings with the symbol CE are based on an unconditional, irrevocable, and legally enforceable guarantee from the Government of Himachal Pradesh (GoHP) for the timely payment of debt obligations.

Unsupported rating	BWR BBB+/Stable
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**Note:** Unsupported rating does not factor in the explicit credit enhancement.

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for the definition of the ratings

\*\* Details of bank facilities are provided in Annexure-I; <sup>@</sup>This rating pertains to an existing assignment received prior to 13 Sep 2023.

Instrument**	Previous Amount (Rs. Crs.)	Present Amount (Rs. Crs.)	Tenure	Previous Rating (22 Sep 2022)	Present Rating* <sup>@</sup>
Non SLR Taxable Bonds (Series I-V)	324.24	153.58	Long Term	BWR A (CE)/Stable Reaffirmation	BWR A (CE)/Stable Reaffirmation
Non SLR Taxable Bonds (Series 2015-16)	300.00	289.80		BWR A (CE)/Stable Reaffirmation	BWR A (CE)/Stable Reaffirmation
<b>Total</b>	624.24	443.38	<b>Rupees Four Hundred Forty Three Crores and Thirty Eight Lakhs Only</b>		

The ratings with the symbol CE are based on unconditional, irrevocable, and legally enforceable guarantee from the Government of Himachal Pradesh (GoHP) for the timely payment of debt obligations.



Unsupported rating

BWR BBB+/Stable

**Note:** Unsupported rating does not factor in the explicit credit enhancement.

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for the definition of the ratings

\*\* Details of the Bonds are provided in Annexure-II;

@This rating pertains to an existing assignment received prior to 13 Sep 2023.

### **RATING ACTION / OUTLOOK**

The reaffirmation of the Bonds' and bank loan ratings of Himachal Pradesh State Electricity Board Limited (HPSEB or the company) continues to derive comfort from the 100% ownership of the GoHP and the company's strategic importance to the state, continuous support extended from the GoHP in the form of equity, grants and subsidies, and year-on-year improvement in the operational parameters.

The ratings also draw comfort from the availability GoHP's unconditional, irrevocable, and legally enforceable guarantee for Rs. 102.71 Crs. of term loan from Power Finance Corporation Ltd. (PFC), Rs. 121.94 Crs. of term loan from State Bank of India (SBI), Rs. 155.18 Crs. of term loan from HP State Cooperative Bank Limited, and Rs. 443.38 Crs. of Non SLR Taxable Bonds. The ratings are, however, constrained on account of operating losses suffered by the company on account of higher energy purchase costs, widening net losses, and increasing debt level. BWR takes note of the fact that the operations at the company's biggest power plant at Larji of installed capacity 126 MW were impacted due to flash floods in Q1FY24. One unit of the plant is expected to be operationalised in December 2023 and the other two units by June 2024.

The outlook has been maintained as Stable as BWR believes the credit risk profile of HPSEB and GoHP will be maintained over the medium term and the GoHP is expected to continue supporting the company by way of regular equity infusion and grants/subsidies. The outlook may be changed to Positive in case of better than expected improvement in the scale of operations, profitability, and operational parameters. The outlook may be changed to Negative in case of more than expected sustained operational disruptions adversely impacting the scale of operations and profitability. The outlook shall also remain in line with the outlook of the rating of the support provider.

### **ADEQUACY OF CREDIT ENHANCEMENT STRUCTURE**

#### **A. Term Loans:**

BWR has assessed the attributes of Government of Himachal Pradesh (GoHP) guarantee available as a credit enhancer for the BWR rated term loans from PFC, SBI, and HP State Cooperative Bank. The government guarantees given by GoHP for the loans of sanctioned limits of Rs. 162.30 Crs. from HP State Cooperative Bank, Rs. 137.83 Crs. from Power Finance Corporation, and Rs. 162.70 Crs. from State Bank of India are unconditional, irrevocable, and legally enforceable. The credit enhancement is in-line with the BWR's criteria on the Credit Enhancement provided by the guarantee also complies with the RBI Guidance Note dated 22 Apr 2022 read with RBI FAQs dated 26 July 2022. GoHP is the guarantor for the payment of principal and interest. The guarantee is for the full tenure of the loans. In case the HPSEB fails to make payments on due date, GoHP shall pay such amount to the lender without any demur or protest or contestation and without reference to the borrower (HPSEB).

**B. Bonds:**

BWR has assessed the attributes of Government of Himachal Pradesh (GoHP) guarantee for the credit enhancement of the BWR rated Bonds. The government guarantees provided by GoHP for the BWR rated Bonds are unconditional, irrevocable, and legally enforceable, and comply with the SEBI Circular dated 28 Sep 2022. The credit enhancement is also in-line with the BWR's criteria on the Credit Enhancement provided by the guarantee. The Guarantee entails maintenance of Designated Escrow Account which has to be replenished by HPSEB by 10 business days prior to the due date of payment. In case of failure of the company to do so, the Trustee shall invoke the guarantee by informing the GoHP not later than 9 business days prior to the due date. GoHP, upon receipt of such a notice from the Trustee, shall transfer such funds to the Designated Escrow Account not later than 3 business days prior to the due date. Thereupon, the Trustee shall make the payments to the bondholders on due date accordingly.

**KEY COVENANTS OF THE INSTRUMENTS / FACILITIES RATED**

**Term Loans**

Sl. No.	Covenants
1	For bank loans covered under GoHP guarantee, GoHP is the guarantor for the payment of principal and interest. The guarantee is for the full tenure of the loans.
2	In case the HPSEB fails to make payments on due date, GoHP shall pay such amount to the lender without any demur or protest or contestation and without reference to the borrower (HPSEB).
3	In addition, the terms of sanction for the term loans include standard covenants normally stipulated for such facilities.

**Bond (ISIN: INE220H09113)**

Sl. No.	Covenants
1	Structured payment mechanism of T-10 days and a Designated Escrow Account (Account) under which the borrower (HPSEB) shall transfer the amounts payable on each due date (T) by 10 business days prior to the due date ( <b>T-10 business days</b> ).
2	In case of failure by the borrower to fund the Account by T-10 business days, the Trustee shall invoke the GoHP guarantee by sending a written Notice to the GoHP not later than 9 business days prior to the due date ( <b>T-9 business days</b> ).
3	GoHP, which has given unconditional, irrevocable, and legally enforceable guarantee for principal and interest payment of the Bond vide Govt. Notification Order No. Fin-IF(C)30-4/91 dated 21 Jan 2015, shall transfer the requisite funds into the Account as per the Notice issued by the Trustee not later than 3 business days prior to the due date ( <b>T-3 business days</b> ).
4	GoHP guarantee is valid till the entire Bonds are fully redeemed.
5	On receipt of the requisite funds in the Account, the Trustee shall make payment

	of interest / principal to the bond holders on the due date (T) in accordance with the payment waterfall: <ul style="list-style-type: none"> <li>• firstly to all payments of interest falling due on the coupon payment dates</li> <li>• secondly to the payment of principal amount falling due on the relevant redemption dates</li> </ul>
6	The Bond shall be redeemed at par at maturity from the Deemed Date of Allotment, in a ratio of 30:30:40, at the end of 8th, 9th, and 10th year, respectively.
7	Put/Call option may be exercised by bond holder/borrower at the end of 7th year from the Deemed Date of Allotment.
8	<b>Coupon rate:</b> 9.13% per annum, payable semi-annually on 03rd June and 03rd December each year.

#### Bond (ISIN: INE220H08016)

Sl. No.	Covenants
1	Structured payment mechanism of T-10 days and a Designated Escrow Account (Account) under which the borrower (HPSEB) shall transfer the amounts payable on each due date (T) by 10 business days prior to the due date ( <b>T-10 business days</b> ).
2	In case of failure by the borrower to fund the Account by T-10 business days, the Trustee shall invoke the GoHP guarantee by sending a written Notice to the GoHP not later than 9 business days prior to the due date ( <b>T-9 business days</b> ).
3	GoHP, which has given unconditional, irrevocable, and legally enforceable guarantee for principal and interest payment of the Bond vide Govt. Notification Order No. Fin-IF(C)30-4/91 dated 22 May 2015, shall transfer the requisite funds into the Account as per the Notice issued by the Trustee not later than 3 business days prior to the due date ( <b>T-3 business days</b> ).
4	GoHP guarantee is valid till the entire Bonds are fully redeemed.
5	On receipt of the requisite funds in the Account, the Trustee shall make payment of interest / principal to the bond holders on the due date (T) in accordance with the payment waterfall: <ul style="list-style-type: none"> <li>• firstly to all payments of interest falling due on the coupon payment dates</li> <li>• secondly to the payment of principal amount falling due on the relevant redemption dates</li> </ul>
6	The Bond shall be redeemed at par at maturity from the Deemed Date of Allotment, in a ratio of 30:30:40, at the end of 8th, 9th, and 10th year, respectively.
7	Put/Call option may be exercised by bond holder/borrower at the end of 7th year from the Deemed Date of Allotment.
8	<b>Coupon rate:</b> 10.39% per annum, payable semi-annually on 29th March and 29th September each year.

## KEY RATING DRIVERS

### Credit Strengths:-

- Strong Parentage and Established Track Record:** HPSEB is wholly owned by GoHP. It is of strategic importance to the state, being responsible for the power generation and power distribution around the state. GoHP has demonstrated considerable support to the company in the form of equity infusion, subsidy and grants. In FY23 (Prov.), the company received a subsidy of ~Rs. 1044 Crs. (PY: ~Rs. 319 Crs.) and equity infusion of Rs. 50 Crs. (PY: Rs. 25 Crs.) from GoHP. BWR expects continued availability of similar support from GoHP which remains a key rating sensitivity. The company has an established track record of operations of over five decades. Currently, the company has 23 hydro power stations with an aggregate installed capacity of ~488.25 MW.
- Guarantee by GoHP and Availability of Structured Payment Mechanism:** The GoHP has given an unconditional, irrevocable, and legally enforceable guarantee for all the BWR rated bond issues and certain BWR rated term loans. The rated bond series have well defined structured payment mechanisms and Designated Escrow Accounts (Accounts); the terms of issue require timely transfer of funds (T minus basis) for debt servicing to the designated Accounts. The mechanism has been adhered to resulting in timely servicing of the bond obligations.
- Improvement in Some Operational Parameters:** The company's plant load factor (PLF) improved from 34.39% in FY22 to 50.41% in FY23. Also, its billing efficiency improved from 87.25% in FY22 to 89.05% in FY23. AT & C losses declined from 12.75% in FY22 to 10.94% in FY23. BWR takes note of the company's ongoing efforts to further improve its operational efficiency which are expected to be visible from the medium term. The company is initiating various reform measures under the Central Government's Revamped Distribution Sector Scheme (RDSS) with focus on smart metering, upgradation of the distribution infrastructure, feeder segregation, etc.

### Credit Risks:-

- Average Financial Risk Profile:** In FY23 (Prov.), HPSEB has reported EBITDA losses in addition to net losses. The EBITDA losses are largely driven by high power purchase costs. The widening in net losses in FY23 (Prov.) is primarily due to the EBITDA losses. However, the scale of operations increased in FY23 (Prov.) marked by a ~12% increase in total operating income from Rs. 7114.31 Crs. in FY22 to Rs. 7987.00 Crs. in FY23 (Prov.). EBITDA declined from Rs. 314.95 Crs. to Rs. (363.86) Crs. and net losses widened from Rs. (103.69) Crs. to Rs. (976.20) Crs. over the same period. Accumulation of net losses over the previous years has led to complete erosion of tangible net worth which was at Rs. (1940.99 Crs.) on 31 Mar 2023 (Prov.). The company continues to report high debt levels. Despite regular repayments, the debt remained at elevated levels of ~Rs.6000 Crs. as on 31 Mar 2023 (Prov.). EBITDA and net losses in FY23 (Prov.) led to negative debt coverage metrics on 31 Mar 2023 (Prov.). On a provisional basis in Q1FY24, the company's revenue, EBITDA, and PAT were at Rs. 1777.19 Crs., Rs. (95.30) Crs., and Rs. (254.82) Crs., respectively.

- **State Finances:** The state has shown continuous revenue deficit and fiscal deficit in 2023 RE and 2024 BE, and the state is highly dependent on the centre for grants. The debt and guarantees to the GSDP are estimated at 39.76% in 2023 RE and budgeted to be at 39.70% in 2024 BE.

**ANALYTICAL APPROACH - Standalone / Credit Enhancement**

For arriving at the standalone ratings, BWR has considered the standalone financials of the company. The company has one subsidiary company, i.e., Beas Valley Power Corporation (100%) and one joint venture, i.e., Himachal Renewable Limited (50%). The combined share of these entities is not significant currently.

The CE ratings derive credit enhancement from the unconditional, irrevocable, and legally enforceable guarantee from the GoHP.

**RATING SENSITIVITIES**

Going forward, the ability of HPSEB to regain and sustain operating profitability and maintain consistent inflows by way of subsidy / grants and equity from the GoHP will remain key rating sensitivities.

**Upward:** Sustained improvement in operating parameters, revenue and profitability, reduction of the gearing level, significantly larger than expected support from the GoHP in the form of grants/capital infusion and improvement in the fiscal profile of the state.

**Downward:** Sustained decline in profitability, decline in operating parameters, further deterioration of gearing, delay in the realisation of receivables leading to deterioration in the liquidity position and weakening of support from the GoHP and/or a deterioration in its credit risk profile

**LIQUIDITY INDICATORS - Adequate**

On a standalone basis, the company’s liquidity position has turned stretched, marked by inadequate EBITDA and net cash accruals to cover debt obligations in FY23. Both EBITDA and net cash accruals turned negative in FY23 (Prov.) against the finance cost of Rs. 452.90 Crs. and CPLTD of Rs. 609.14 Crs. Cash & cash equivalents declined from Rs. 283.39 Crs. as on 31 Mar 2022 to Rs. 112.38 Crs. as on 31 Mar 2023 (Prov.). However, the company has received a subsidy of Rs. 1044.03 Crs. and equity infusion of Rs. 50 Crs. in FY23 (Prov.) from GoHP. The GoHP has a demonstrated track of supporting the company’s liquidity through grants, subsidies, and equity infusion which is expected to continue and meet the debt obligations timely in FY24 and FY25 in case of any operational cash flow shortfalls. BWR also acknowledges the availability of GoHP guarantee for a partial amount of the company’s total debt.

**ABOUT THE ENTITY**

Macro Economic Indicator	Sector	Industry	Basic Industry
Utilities	Power	Power	Power Generation Power Distribution

Himachal Pradesh State Electricity Board was constituted in September 1971 in accordance with the Electricity Act 1948, for coordinated development of power potential, and generation, transmission and distribution of electricity within the state efficiently and economically. On 10 June 2010, Himachal Pradesh State Electricity Board was reorganised into a company to be known as Himachal Pradesh State Electricity Board Limited (HPSEB or the company). In accordance with Himachal Pradesh Power Sector Reforms Transfer Scheme, the functions of generation, distribution and trading of electricity were transferred to HPSEB while the function of evacuation of power through transmission lines was transferred to Himachal Pradesh Power Transmission Company Limited (HPPTCL). HPSEB is wholly owned by the Government of Himachal Pradesh (GoHP). Presently HPSEB has 23 power stations with installed capacity of ~488.25 MW.

#### KEY FINANCIAL INDICATORS - ISSUER: Standalone

Key Parameters	Unit	FY22 (A)	FY23 (Prov.)	Q1FY24 (UA)
Total Operating Income	Rs. Crs.	7114.31	7987.00	1777.19
EBITDA	Rs. Crs.	314.95	-363.86	-95.30
PAT	Rs. Crs.	-103.69	-976.20	-254.82
TNW	Rs. Crs.	-988.75	-1940.99	-2189.06
Total Borrowings	Rs. Crs.	5943.08	6133.35	5942.17
D:E	Times	Negative	Negative	Negative

**Note:** All figures and ratios have been adjusted as per BWR standards.

A = Audited; Prov.= Provisional; UA = Unaudited and CA and Management Certified.

#### FINANCIAL PERFORMANCE OF GoHP

The state expects a revenue deficit of Rs. 7925 Crs in 2024 B.E. (3.69% of GSDP). As per 2023 R.E., the revenue deficit is estimated to be Rs. 9741 Crs., as compared to the revenue deficit of Rs. 7080 Crs. estimated at the budget stage (2023 B.E.). The fiscal deficit for 2024 B.E. is estimated to be Rs. 11851 Crs. (5.51% of GSDP). As per 2023 R.E., the fiscal deficit is estimated to be at 7.68% of the GSDP as compared to 6.66% of the GSDP estimated at the budget stage (2023 B.E.). The state has a high level of outstanding debt of Rs. 0.69 Lakh Crs. as on 2022 actuals, which is expected to rise to Rs. 0.84 Lakh Crs. as per 2024 B.E.

Key Parameters	Units	2022	2023	2024
Result Type		Actuals	R.E.	B.E.
Revenue Receipts	Rs. Crs.	37309	38945	38000
Revenue Expenditure	Rs. Crs.	39287	48686	45925
Capital Receipts	Rs. Crs.	9575	23143	13866
Capital Expenditure	Rs. Crs.	10843	17806	10759
Revenue Surplus/GSDP	%	(1.12)	(4.98)	(3.69)
Fiscal Deficit/GSDP	%	(4.65)	(7.68)	(5.51)
(Debt+Guarantees)/GSDP	%	40.48	39.76	39.70

R.E. Revised Estimates, B.E. Budget Estimates

**NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY (IF ANY):**  
Nil

**RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal & suspended]**

Facility / Instrument	Current Rating (Nov 2023)			Rating History							
	Tenure	Amount (Rs. Crs.)	Rating	2023		2022		2021		2020	
				Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term Loan	Long Term	250.00	BWR BBB+/Stable Assignment	-	-	-	-	-	-	-	-
Term Loan		92.14	BWR BBB+/Stable Reaffirmation	NA	NA	22 Sep 2022	BWR BBB+/Stable Assignment	-	-	-	-
Term Loan		102.71	BWR A (CE)/Stable Reaffirmation	NA	NA	22 Sep 2022	BWR A (CE)/Stable Reaffirmation	21 May 2021	BWR A (CE)/Stable Assignment	-	-
Term Loan		277.12	BWR A (CE)/Stable Reaffirmation	NA	NA	22 Sep 2022	BWR A (CE)/Stable Reaffirmation	21 May 2021	BWR A (CE)/Stable Reaffirmation	21 Apr 2020	BWR A (CE)/Stable Reaffirmation
Term Loans Cash Credit		4502.04 250.00	BWR BBB+/Stable Reaffirmation	NA	NA	22 Sep 2022	BWR BBB+/Stable Reaffirmation	21 May 2021	BWR BBB+/Stable Reaffirmation	21 Apr 2020	BWR BBB+/Stable Reaffirmation
Non SLR Taxable Bonds (Series I-V)		153.58	BWR A (CE)/Stable Reaffirmation	NA	NA	22 Sep 2022	BWR A (CE)/Stable Reaffirmation	21 May 2021	BWR A (CE)/Stable Reaffirmation	21 Apr 2020	BWR A (CE)/Stable Reaffirmation
Non SLR Taxable Bonds (Series 2015-16)		289.80	BWR A (CE)/Stable Reaffirmation	NA	NA	22 Sep 2022	BWR A (CE)/Stable Reaffirmation	21 May 2021	BWR A (CE)/Stable Reaffirmation	21 Apr 2020	BWR A (CE)/Stable Reaffirmation
<b>Total</b>		<b>5917.39</b>	<b>Rupees Five Thousand Nine Hundred Seventeen Crores and Thirty Nine Lakhs Only</b>								

**COMPLEXITY LEVELS OF THE INSTRUMENTS:**

Bonds/NCDs: Complex

Bank Loan Facilities: Simple

For more information, visit

<https://www.brickworkratings.com/download/ComplexityLevels.pdf>

**Hyperlink/Reference To Applicable Criteria**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)
- [Power Generation Utilities](#)
- [Power Distribution Utilities](#)
- [Credit Enhancement](#)
- [Rating Based on Government Support](#)



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## HIMACHAL PRADESH STATE ELECTRICITY BOARD LIMITED

### ANNEXURE I - DETAILS OF RATED BANK LOAN FACILITIES

Sl. No.	Name of the Bank/Lender	Type of Facilities	Long Term (Rs. Crs.)	Short Term (Rs. Crs.)	Total (Rs. Crs.)
1	Power Finance Corporation (PFC)*	Term Loan	102.71	-	102.71
2	State Bank of India*	Term Loan	121.94	-	121.94
3	HP State Cooperative Bank*	Term Loan	155.18	-	155.18
4	Rural Electrification Corporation (REC)	Term Loan	92.14	-	92.14
5	HP State Cooperative Bank	Cash Credit	250.00	-	250.00
6	Kangra Central Cooperative Bank	Term Loan	250.00	-	250.00
7	PFC & REC	Term Loans	1509.05	-	1509.05
8	Government of Himachal Pradesh (KfW Loan)	Term Loans	89.59	-	89.59
9	Government of Himachal Pradesh (ADB Loan)	Term Loans	12.90	-	12.90
10	Government of Himachal Pradesh (UDAY Bonds)	Term Loans	2890.50	-	2890.50
<b>Total</b>			<b>5474.01</b>	<b>0.00</b>	<b>5474.01</b>
<b>Rupees Five Thousand Four Hundred Seventy Four Crores and One Lakh Only</b>					

\*Guaranteed by GoHP

**HIMACHAL PRADESH STATE ELECTRICITY BOARD LIMITED  
ANNEXURE II - DETAILS OF RATED BONDS/NCDs**

Name of the Issue	ISIN Particulars	Amount (Rs. Crs.)	Coupon Rate	Issue Date	Maturity Date
Non SLR Taxable Bonds (Series I-V)	INE220H09063	0.00	8.75%	-	26 Jun 2023
	INE220H09113	153.58	9.13%	03 Dec 2014	03 Dec 2024
Non SLR Taxable Bonds (Series 2015-16)	INE220H08016	289.80	10.39%	29 Mar 2016	27 Mar 2026

**Note:** BWR rated bond of ISIN INE220H09063 of the Non SLR Taxable Bonds (Series I-V) was fully redeemed on the due date of 26 June 2023, however, the rating has not been separately withdrawn as other Bond of same Series is still in currency. The rated bonds are listed on BSE.

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