

July 29, 2021

Punjab Infrastructure Development Board: Ratings reaffirmed; Outlook revised to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Rs. 500-crore Deep Discount Bonds- Series II	97.37	50.63	[ICRA]BBB-(CE) (Stable) Reaffirmed; Outlook revised to Stable from Negative
Rs. 150-crore Deep Discount Bonds- Series III	43.67	43.45	[ICRA]BBB-(CE) (Stable) Reaffirmed; Outlook revised to Stable from Negative
Total	141.04	94.08	

Rating Without Explicit Credit Enhancement	[ICRA]BB+
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*Instrument details are provided in Annexure-1

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The reaffirmation of the assigned rating reflects the adequate budgetary allocation for the debt servicing of the Punjab Infrastructure Development Board's (PIDB's) bonds by the Government of Punjab (GoP). The latter has extended an unconditional and irrevocable guarantee for the repayment of the principal and the payment of interest over the tenure of the rated instruments, and, therefore, the rating assigned to the PIDB's bond programmes primarily reflects the credit profile of the GoP. The rating assigned to the bond programmes of the PIDB also factors in the integrity of, and expected adherence to, the structured payment mechanism by the Board. The rating continues to derive comfort from the adequate budgetary allocation for debt servicing of ICRA-rated bonds by the GoP for FY2022 and the expected timely release of the same in the ongoing fiscal, in line with the practice followed during FY2018-FY2021.

The revision in the outlook on the rating assigned to the PIDB's bond programmes reflects a change in ICRA's outlook on the rating of the guarantor, the GoP, to Stable from Negative. Despite the Covid-19 pandemic, the GoP's cash flow management and liquidity position appears to have improved. There has been a substantial decline in its usage of the Ways and Means Advances (WMA) facility and it did not avail of the overdraft (OD) facility offered by the Reserve Bank of India (RBI), in the pandemic-stricken FY2021 and in FY2022, so far (data available for April-May 2021), relative to the trend seen up to FY2020. Additionally, the GoP appears to have carried forward a substantial unutilised borrowing limit from FY2021 to FY2022. This would augment its ability to withstand any revenue shocks in FY2022, such as any adverse impact of the second wave of the Covid-19 pandemic after the GoP had published its FY2022 budget estimates (BE).

In addition, the recent regulatory changes in the Punjab Infrastructure (Development & Regulation) Amendment Act (PIDRAA), 2021 are expected to improve the PIDB's revenue and liquidity profile from FY2022 onward. The PIDB had been completely dependent on the GoP for servicing its debt obligations from FY2018 onwards, on account of the regulatory changes that took place in that fiscal. During the period FY2018-FY2021, interest income was the only source of own revenues for the PIDB. Subsequently, on March 25, 2021, the GoP notified the PIDRAA, 2021, which includes a provision to levy a special infrastructure development (ID) fee on petrol, diesel and immovable property by the state government at a rate notified by it and the same shall be credited in the Development Fund of the PIDB. The PIDRAA, 2021 came into effect on April 5, 2021, and notified the

levy of a special ID fee of Rs. 0.25 per litre each on the sale of petrol and diesel within Punjab and Rs. 0.25 for every one-hundred rupees of the value of the purchase of immovable property within Punjab.

Adequacy of credit enhancement

The rating of the instruments is based on the credit substitution approach, whereby the rating of the guarantor, the GoP, has been translated to the rating of the said instruments. The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument and has a well-defined invocation and payment mechanism. Given these attributes, the guarantee provided by the GoP is adequately strong to result in an enhancement in the rating of the said instrument to **[ICRA]BBB-(CE)**, against the rating of **[ICRA]BB+** without explicit credit enhancement. In case the rating of the guarantor was to undergo a change in future, the same would reflect in the rating of the aforesaid instrument as well.

Salient covenants of the rated facility

- An unconditional and irrevocable guarantee by the GoP for the repayment of principal and interest over the entire tenure of the bond programme
- Adequate funding of the escrow account by the PIDB for servicing the bondholders at least seven days prior to the forthcoming due date for payment of principal and/or interest
- Regular monitoring of the escrow account by the Trustee to the bondholders
- Tripartite agreement between the PIDB, the GoP and the Trustee to the bondholders, outlining the obligations of the various signatories
- A trigger-enabled mechanism if the PIDB fails to adequately fund the escrow account in time

Key rating drivers and their description

Credit strengths

Adequate budgetary allocation by the GoP for debt servicing of the bonds: The GoP has been making budgetary allocations¹ for assistance to the PIDB (debt servicing and other expenditure) since FY2018. The allocations and the funds released to the PIDB, were adequate for debt servicing of the ICRA-rated bonds of the Board in FY2018 to FY2021. The GoP has made a budgetary allocation of Rs. 601 crore in FY2022 as assistance to the PIDB, which is adequate for the debt servicing of its ICRA-rated bonds (Rs. 37 crore) due in the current year.

Satisfactory adherence to structured payment mechanism for the rated bonds: To facilitate the debt servicing of the ICRA-rated bonds, the PIDB is required to credit adequate funds into the escrow accounts monitored by a Trustee, by T-10 days. If the funds are inadequate at T-10 days, the Trustee shall intimate the GoP to make up the shortfall in the escrow accounts. If sufficient funds are not available in the escrow accounts by T-7, the Trustee would invoke the guarantee extended by the GoP for the repayment of the principal and payment of interest on the ICRA-rated bonds of the PIDB. The PIDB has been depositing funds in the escrow accounts in line with the transaction structure of the ICRA-rated bonds.

Credit challenges

Dependence on the GoP for timely debt servicing: Despite the collections of the special ID fee on specified commodities in its own account from FY2022 onward, the PIDB would continue to be reliant on the GoP, which has a moderate credit profile, for the timely debt servicing of bonds.

Key rating drivers and their description (of the GoP, the guarantor)

Credit strengths

¹Following the notification of the Punjab Infrastructure (Development & Regulation) Amendment Act (PIDRAA), 2017, in July 2017, the ID fee collections, which previously formed the key source of revenues of the PIDB, are being credited into the Consolidated Fund of the GoP.

Above-average per capita income supports consumption: Low poverty levels (11.3% vs national average of 29.5% in 2012), above-average per capita income (Rs. 1,61,083 per capita income in Punjab vs. all-India per capita income of Rs. 1,34,186 in FY2020) and remittances support consumption in the state.

Healthy socio-economic indicators: Punjab's performance on various socio-economic indicators, including the literacy rate (76.7% in 2011), urbanisation (37.5% in 2011), the human development index (0.69 in 2012) and infant mortality rate (20 per 1,000 persons live birth in 2018) were favourable, compared to the respective national averages (74.0%, 31.2%, 0.55 and 32 per 1,000 persons).

Favourable infrastructure: Punjab fares well in terms of infrastructure indicators, with near-universal irrigation coverage, substantial per-capita availability of power (1,995 kilowatt-hours in 2019, nearly double the national average of 1,029 kilowatt-hour), five (one international and four domestic including Chandigarh) airports and an above-average road density (1,864 per 1000 km, compared to the national average of 1,481 per 1000 km in 2012).

Credit challenges

Relatively high dependence on GST compensation: The state GST (SGST) collections of the GoP have been sharply lower than the protected revenues during FY2018-FY2020, leading to a sizeable GST compensation requirement of the state government. The share of GST compensation as a proportion of the GoP's revenue receipts nearly doubled from 7.6% in FY2018 to 14.3% in FY2020. As per the FY2022 Union Budget, the state received Rs. 8,359 crore as GST compensation loan in FY2021, the fourth-highest amongst the 26 states/UTs that received it. The GST compensation is currently scheduled to cease from July 2022, which would pose a challenge to the state government's fiscal health.

High outgo on committed items: The combined outgo on salary, pension and interest payments of the GoP averaged 86.4% of its total revenue receipts and 72.3% of its revenue expenditure during FY2016 to FY2020, higher than most of the other states. In addition, the GoP's interest payments ranged between 24-29% of its revenue receipts, substantially higher than the norm of 10.0% that had been set by the Fourteenth Finance Commission (14th FC).

Large power subsidy bill: The provision of power at subsidised tariffs for agricultural consumers and the considerable dependence on power to draw groundwater for irrigation have led to a high 13.1% of the revenue receipts of the GoP being appropriated for the power subsidy during FY2016-FY2020. Additionally, partly reflecting the inclusion of power subsidy to certain industrial consumers and increase in subsidy to domestic consumers, the GoP's power subsidy is estimated to increase from Rs. 9,394 crore in FY2020 to Rs. 10,621 crore in FY2022 BE.

Unfavourable revenue balance: Even prior to the pandemic, the GoP's revenue deficit stood at a substantial Rs. 14,285 crore or 2.6% of the Gross State Domestic Product (GSDP) in FY2020, on account of the sticky nature of the GoP's revenue spending. The size of the deficit is expected to have risen further to Rs. 20,730 crore in FY2021 RE. Nevertheless, the GoP's fiscal deficit has remained within the net borrowing limits set by the Ministry of Finance on the recommendations of the Finance Commissions during FY2016-21 RE (except in FY2019).

High leverage levels relative to SOTR and GSDP: At 3.76x the revenue receipts and 8.91x the SOTR in FY2021 RE, the GoP's leverage levels remain adverse, relative to various other states.

Liquidity position: Adequate (for both GoP and PIDB)

The GoP had consistently availed the WMA and the OD facilities from the RBI during FY2016 to FY2020. However, despite the revenue shock generated by the pandemic, the GoP availed the WMA from the RBI for 67 days during FY2021, compared to 230 days in FY2019 and 196 days in FY2020. Moreover, the GoP did not avail of the overdraft facility from the RBI in FY2021, unlike the trend in the previous few years. Further, the GoP has not availed the WMA and the OD facilities in April-May 2021 (latest data available). Accordingly, its liquidity position is inferred to be adequate.

The PIDB is completely dependent on the GoP for debt servicing of bonds and term loans. The transaction structure of the ICRA-rated bonds includes trustee-monitored escrow accounts, into which adequate funds must be transferred by T-7, failing which the guarantee extended by the GoP is to be invoked. For FY2022, the GoP has made a budgetary allocation of Rs. 601 crore in its FY2022 budget as assistance to the PIDB, which is adequate for the debt servicing of its ICRA-rated bonds in FY2022 (Rs. 37 crore) as well as for non-ICRA rated term loans (Rs. 403 crore).

Rating sensitivities for PIDB

The [ICRA]BBB-(CE)/Stable rating assigned to the bonds of the PIDB would remain sensitive to any movement in the rating or outlook of the GoP, which has extended an unconditional and irrevocable guarantee to the said instruments. Non-adherence to the structured payment mechanism by the PIDB could lead to downward revision in the rating of its bond programmes.

Rating sensitivities for GoP

Positive factors

Sustained improvement in the revenue account balance, leverage levels and liquidity indicators of the GoP.

Negative factors

Deterioration in the GoP's revenues, leading to the widening of revenue deficits, and/or a rise in leverage levels and worsening of liquidity indicators

Increase in the guarantees outstanding to state level entities and debt outstanding of the state power sector entities (either supported or unsupported by the GoP), leading to a significant worsening of the consolidated leverage levels of the state government and its power entities

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for State Governments Rating Approach - Explicit third-party support
Parent/Group Support	Parent: Government of Punjab
Consolidation/Standalone	Standalone

About the PIDB

The PIDB was incorporated under the Punjab Infrastructure Development Act (PIDA) in 1998 to act as a nodal agency to stimulate development of infrastructure in Punjab. The PIDA was subsequently replaced by the Punjab Infrastructure (Development & Regulation) Act, 2002 effective July 11, 2002, which retained the Board's role as a nodal agency for the overall planning for infrastructure development in the state. The main source of the PIDB's revenues used to comprise the ID fee, levied on the sale of specific agricultural items (wheat and paddy), petrol, diesel, consumption of electricity and purchase of immovable property, at rates notified by the GoP. Subsequently, in July 2017, the GoP notified the PIDRAA, 2017, wherein the ID fee levied on the sale of specific items (petrol, diesel, consumption of electricity and purchase of immovable property), which previously formed the key source of revenues of PIDB, would be credited to the Consolidated Fund of the GoP. Following this regulatory change, the GoP has been making adequate budgetary allocation for the PIDB's debt-servicing requirements and other expenditure.

By notifying the PIDRAA, 2021, on March 25, 2021, the GoP has permitted the levy of a special ID fee of Rs. 0.25 per litre each on sale of petrol and diesel within Punjab and Rs. 0.25 for every one-hundred rupees of the value of purchase of immovable property within Punjab, the proceeds of which will be credited into the Development Fund of the PIDB that was created under Section 27 of the PIDRA 2002.

In FY2020, the PIDB received Rs. 1,309.3 crore as grant from the GoP, which was lower than the amount of Rs. 1,475.1 crore received in FY2019, although it was adequate for servicing the PIDB's debt obligations. The PIDB's expenditure on infrastructure projects declined to Rs. 164.0 crore in FY2020 from Rs. 365.1 crore in FY2019 and it included the principal

redemption of Rs. 896 crore in FY2020 as expenditure (nil included in FY2019, compared to an actual principal redemption of Rs. 808 crore). Accordingly, the excess of income over expenditure reported by the PIDB declined to Rs. 228.3 crore in FY2020 from Rs. 926.7 crore in FY2019.

For FY2021, the GoP has made an allocation of Rs. 601 crore as assistance to PIDB which is adequate for the debt servicing of its ICRA-rated bonds.

Key financial indicators (audited)

PIDB	FY2018	FY2019	FY2020
Income	1,797.3	1,506.7	1,322.5
Infrastructure fee	1,158.2	4.9	0.4
Interest from Banks	46.4	26.7	12.8
Grant in aid from GoP	592.7	1,475.1	1,309.3
Expenditure	713.7	580.0	1,094.2
Infrastructure development expenses	317.4	365.1	164.0
less receipts related to infrastructure development	114.8	118.6	131.0
Net infrastructure development expenditure	202.6	246.5	33.0
Establishment and administrative expenditure	6.0	7.0	6.7
Interest expenditure	504.9	326.2	158.5
Principal redemption [#]	-	-	895.9
Depreciation	0.2	0.2	0.2
other expenditure	-	0.1	0.0
Excess of Income over expenditure	1,083.5	926.7	228.3

Note: Amount in Rs. crore; FY2021 Provisional/audited financial statements of PIDB are not available; # PIDB repaid Rs. 837 crore of term loans in FY2019 and if the same is included under that year's expenditure, the excess of income over expenditure in FY2019 would be Rs. 89.7 crore.

Source: PIDB, ICRA Research

About the GoP's Finances

The GoP's fiscal profile is characterised by sustained revenue deficits since FY2012, led by high committed expenditure and substantial power subsidies. The state government's revenue deficit increased to Rs. 14,285 crore in FY2020 or 2.6% of the GSDP from Rs. 8,550 crore or 2.2% of GSDP in FY2016. Its capital outlay and net lending have been modest, at 0.8-1.3% of the GSDP during FY2016-FY2020. Reflecting the latter, the GoP was able to adhere to the fiscal deficit target of 3.0% of the GSDP set by the 14th FC for FY2016-FY2020, although it mildly exceeded the target in FY2019. The GoP's leverage levels have remained unfavourable, led by the continued fiscal deficits and support extended by the state government through guarantees to the crop procurement agencies and power sector entities. At 44.3% of the GSDP and 8.2 times its SOTR in FY2020, the GoP's leverage levels were adverse relative to various other states. Additionally, the GoP's interest payments relative to its revenue receipts stood at 28.5% in FY2020, significantly higher than the norm of 10% set by the 14th FC.

Amidst the Covid-19 pandemic, the GoP's revenue expenditure expanded by a higher 22.3% to Rs. 92,772 crore, whereas its revenue receipts increased by 17.0% to Rs. 72,042 crore in the revised estimates (RE) for FY2021. This widened the GoP's revenue deficit to Rs. 20,730 crore in the FY2021 RE from Rs. 14,285 crore in FY2020. Subsequently, the FY2022 Budget presented on March 7, 2021, projected a healthy 32.2% growth in its revenue receipts and a moderate 12.0% rise in its revenue expenditure in the BE for FY2022. Accordingly, the GoP's revenue deficit was expected to narrow to Rs. 8,622 crore in FY2022 BE from Rs. 20,730 crore in FY2021 RE. However, the resurgence of the Covid-19 infections in the country, including in Punjab in Q1 FY2022, is likely to have dampened the consumption of various discretionary goods and services during that period. This poses a risk to the healthy expansion and improvement in the revenue deficit projected by the GoP for FY2022.

While the FY2022 Budget had projected a doubling of the GoP's capital outlay and net lending to Rs. 15,617 crore from Rs. 7,735 crore in FY2021 RE, the GoP's fiscal deficit was budgeted to decline to Rs. 24,240 crore in FY2022 from Rs. 28,465 crore in FY2021 RE.

Given the assessed adverse impact of the pandemic on revenues, the GoI had permitted the state governments an additional unconditional borrowing of 1.0% of GSDP, and a reform-linked borrowing of 1.0% of GSDP, over and above the base borrowing limit of 3% of GSDP in FY2021. The GoI allowed any unutilised portion of this enhanced borrowing limit (unconditional and reform-linked) for FY2021 of the state governments to be carried forward to FY2022. In our assessment, the permitted borrowing from all sources that was available to the GoP in FY2021 exceeded the fiscal deficit indicated in its FY2021 RE by a considerable margin, leading to a carry-forward of such unutilised borrowing to FY2022. In our view, this would provide the GoP some cushion to absorb any revenue shock arising from the second wave of the Covid-19 pandemic that resurfaced after the GoP had published its FY2022 budget estimates.

Additionally, in a positive development, the GoP's WMA usage declined sharply to 67 days in the pandemic-stricken FY2021, from 230 days in FY2019 and 196 days in FY2020. Moreover, unlike in the recent years, the GoP did not avail of the overdraft facility from the RBI in FY2021 as well as in Apr-May 2021 (latest data available only for first two months of the fiscal). These trends indicate an improvement in the cash-flow position of the GoP.

ICRA would continue to closely assess the impact of the Covid-19 pandemic on the GoP's revenues, expenditures and its overall fiscal position in FY2022.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years					
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jun 28, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019	
					July 29, 2021	Feb 1, 2021	May 14, 2020	Jan 24, 2020	Apr 9, 2019 Apr 17, 2019	Dec 20, 2018
1	Rs. 500 crore Deep Discount Bonds – Series II	Long-term	50.63	50.63	[ICRA]BBB-(CE) (Stable)	[ICRA]BBB-(CE) (Negative)	[ICRA]BBB-(CE) (Negative)	[ICRA]BBB-(CE)/Stable	[ICRA]BBB-(SO)(Stable)	[ICRA]BBB-(SO)(Stable)
2	Rs. 150 crore Deep Discount Bonds Series III	Long-term	43.45	43.45	[ICRA]BBB-(CE) (Stable)	[ICRA]BBB-(CE) (Negative)	[ICRA]BBB-(CE) (Negative)	[ICRA]BBB-(CE)/Stable	[ICRA]BBB-(SO)(Stable)	[ICRA]BBB-(SO)(Stable)
3	Rs. 750 crore Regular Return Bonds – Series IVA, IVB and IVC	Long-term	-	-	-	-	-	-	[ICRA]BBB-(SO)(Stable) Withdrawn	[ICRA]BBB-(SO)(Stable)
4	Rs. 150 crore Regular Return Bonds Series I	Long-term	-	-	-	-	-	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Bond programme	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
INE091D11048	Rs. 500 crore Deep Discount Bonds – Series II	Dec 27, 2007	10.19%	Dec 27, 2021	9.19	[ICRA]BBB-(CE) (Stable)
INE091D11055				Dec 27, 2022	13.24	
INE091D11063				Dec 27, 2023	5.22	
INE091D11071				Dec 27, 2024	1.14	
INE091D11089				Dec 27, 2025	12.64	
INE091D11097				Dec 27, 2026	7.87	
INE091D11105				Dec 27, 2027	1.33	
INE091D11113	Rs. 150 crore Deep Discount Bonds- Series III	Oct 15, 2008	11.98%	Oct 15, 2024	9.97	[ICRA]BBB-(CE) (Stable)
INE091D11121				Oct 15, 2025	5.30	
INE091D11139				Oct 15, 2026	6.82	
INE091D11147				Oct 15, 2027	2.90	
INE091D11154				Oct 15, 2028	0.25	
INE091D11162				Oct 15, 2029	7.05	
INE091D11170				Oct 15, 2030	7.42	
INE091D11204				Oct 15, 2033	3.74	

Source: PIDB

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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