January 31, 2022

Jaipur Vidyut Vitran Nigam Limited: Rating reaffirmed and withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Proposed Bonds	500.00	500.00	Provisional [ICRA]BBB(CE) (Stable); reaffirmed and withdrawn
Total	**500.00**	**500.00**	

Rating Without Explicit Credit Enhancement	**[ICRA]BB**
Rating in the absence of pending actions/ documents for the provisional rating^	**[ICRA]BB**

**Instrument details are provided in Annexure-1*
^In case of absence of corporate guarantee from Government of Rajasthan (GoR)

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 outstanding rating on the Rs. 500-crore proposed bond programme of Jaipur Vidyut Vitran Nigam Ltd. (JVVNL) has been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings and as desired by the company. The rating factors in the strength of the unconditional and irrevocable guarantee to be provided by the State Government of Rajasthan (GoR/Guarantor) as specified in the GoR order dated March 1, 2019, shared with ICRA. Since the guarantee document has not been shared with ICRA, the rating assigned was provisional (as denoted by the prefix Provisional before the rating symbol) and was subject to the fulfilment and review of all pending action/documentation pertaining to the instrument rated by ICRA. The final rating can differ from the provisional rating in case the completed action/documentation is not in line with ICRA's expectations.

The rating for JVVNL also factors in the company's status as a wholly-owned power sector entity of the GoR and the support from GoR in the form of equity, grant and guaranteed debt. The rating also takes into consideration the presence of the cost-plus tariff framework through the fuel surcharge mechanism, which allows JVVNL to recover the uncontrollable cost variation on a quarterly basis. ICRA also notes the tariff hike approved by the Rajasthan Electricity Regulatory Commission (RERC) in February 2020, which improved the operating profit margin in FY2021 and the current fiscal and lowered the revenue gap in FY2021.

The rating is, however, constrained by the high distribution loss level of JVVNL, although the same has improved gradually over the past few years post the implementation of Ujjwal Discom Assurance Yojana (UDAY). The rating also takes into consideration the high absolute subsidy dependence for JVVNL on GoR (forms 18-23% of the revenue), implying that the timely receipt of subsidy from the GoR remains critical. ICRA notes that while the subsidy receipts have been timely, the actual release of subsidy has remained lower than the claims over the years, increasing the pending subsidy dues to Rs. 4,886 crore till March 31, 2021. The rating is further constrained by the weak cost coverage ratio, high debt levels, negative net worth due to large losses booked and weak debt coverage indicators. ICRA notes that the coverage indicators are weak despite the GoR taking over 75% of the debt of the distribution company (discom) over FY2016 and FY2017 under UDAY, which has been gradually converted into a combination of grant and equity. ICRA also notes the qualified opinion in the audit report of JVVNL for FY2021.

The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor, GoR.

Adequacy of credit enhancement

The rating of the instrument is based on the credit substitution approach whereby the rating of the guarantor has been translated to the rating of the said instrument. ICRA has reviewed the GoR order and the term sheet for the proposed bonds. As per the said documents, the guarantee will be legally enforceable, irrevocable, unconditional and will cover the entire amount and tenor of the rated instrument. Further, it will have a well-defined invocation and payment mechanism. Given these attributes, the guarantee to be provided by the GoR would be adequately strong to result in an enhancement in the rating of the said instrument to Provisional [ICRA]BBB(CE) against the Unsupported Rating of [ICRA]BB. However, ICRA has not been able to assess whether the guarantor would waiver off its rights under Sections 133, 134, 135, 139 and 141 of the Indian Contracts Act and the same would be a monitorable. In case the rating of the guarantor was to undergo a change in the future, the same would reflect in the rating of the aforesaid instrument as well.

Salient covenants of the proposed rated facility

» DSRA to be maintained at all times and shall be equal to the next debt servicing amount

» In the event of default as defined in the draft transaction documents, the guarantor would cover the entire liabilities remaining outstanding on the rated bonds

Key rating drivers and their description

Credit strengths

Corporate guarantee to be provided by GoR - The rating for the proposed bond is based on the strength of the unconditional and irrevocable guarantee to be provided by the GoR. It also draws comfort from a trustee-monitored payment mechanism, which will ensure timely payment of the interest and principal obligations on the bond programme.

State ownership and support - JVVNL came into existence post the unbundling of the erstwhile Rajasthan State Electricity Board (RSEB) in July 2000. It is responsible for the distribution of power in east Rajasthan and is strategically important to the state power sector. It is wholly owned by the GoR, which has supported the discom through regular infusion of funds in the form of equity, grants and guaranteed debt.

Fuel surcharge mechanism ensures pass-through of cost variations; latest tariff hike improved the operating profitability and lowered the revenue gap - The fuel surcharge mechanism is operational for Rajasthan discoms, which allows them to recover in a timely manner such uncontrollable cost variations on a quarterly basis with the Rajasthan Electricity Regulatory Commission's (RERC) approval. Also, the RERC approved a tariff hike in the last tariff order dated February 2020, which improved the operating profit margin in FY2021 and the current fiscal and lowered the revenue gap in FY2021.

Credit challenges

Distribution loss higher than the approved benchmark despite reduction post implementation of UDAY - While JVVNL has achieved gradual improvement in the distribution loss levels over the past few years since the implementation of UDAY, it still does not meet the target of loss reduction set under UDAY and approved by the RERC. The distribution loss for JVVNL stood at 19.44% in FY2021 against the target of 15.00%. The AT&C loss also remained high at 25.22% in FY2021.

High levels of unpaid subsidy from GoR for previous years; subsidy dependence on state remains high - The absolute level of subsidy dependence on GoR for JVVNL remained high at ~Rs. 4,897 crore (~23% of the revenue) in FY2020. While subsidy has been received on a monthly basis, the actual receipt from the GoR has been much lower than that claimed by JVVNL. As a result, the outstanding subsidy from GoR built up to Rs. 4,886 crore over the years till March 31, 2021. The same is currently funded by debt and is a long-term concern.

Weak financial profile - The financial profile of JVVNL remains weak, characterised by weak cost coverage ratio, high debt levels, negative net worth and weak debt coverage indicators. Also, the overall debt levels remain high due to the high unfunded revenue gap and the net worth of the company remained negative as on March 31, 2021 due to the large losses booked in the past. ICRA notes that this is despite the fact that the GoR had taken over 75% of the debt of the discom over FY2016 and FY2017 under UDAY, which has been gradually converted into a combination of grant and equity till FY2020. The debt service coverage indicator continues to remain below 1.0 time indicating refinancing requirement.

Key rating drivers and their description of the guarantor (GoR)

Credit strengths

Healthy own non-tax revenues - The GoR's own non-tax revenue receipts (SONTR) averaged 1.6% of the gross state domestic product (GSDP) during FY2016-20, higher than most other states, boosted by considerable receipts from mining activities.

Moderately favourable capital outlay - The GoR's capital outlay, which is dominated by sectors such as water supply, sanitation, housing and urban development, irrigation, energy and transport, was in the range of 1.5-2.5% of the GSDP during FY2016-20, higher than many other states.

Credit challenges

Modest own tax effort - The GoR's own tax revenues have declined from 6.3% of GSDP in FY2016 to 5.9% in FY2020, lower than several other states.

High spending on power subsidy - The GoR's power subsidy stood at 1-1.4% of GSDP during FY2016-FY2020, higher than many other states. Subsequently, the GoR's power subsidy allocation is expected to have risen substantially from Rs. 89 billion in FY2020 to Rs. 142 billion in FY2021 RE.

Higher-than-recommended fiscal deficit during FY2016-FY2020 - The GoR recorded a multi-fold increase in its revenue deficit to Rs. 364 billion, or 3.6% of GSDP, in FY2020 from Rs. 5,954 crore, or 0.9% of GSDP, in FY2016, led by the support extended to the power sector, which resulted in the GoR's fiscal deficit exceeding the norms set by the Finance Commission (FC) in FY2016-20.

Elevated leverage levels (debt + guarantees) - The GoR's leverage levels worsened to an unhealthy 39.2% of GSDP and at 6.6x of the state's own tax revenue (SOTR) in FY2020 from 36.0% of GSDP and 5.7x SOTR in FY2016.

Liquidity position of JVVNL: Stretched

JVVNL's liquidity position remains stretched owing to limited cash flows generated from operations against the debt obligations, which necessitates continuous refinancing of the loans. The liquidity is also supported by the constant sizable support available from the Government of Rajasthan by way of subsidy, equity and capital grants.

Liquidity position of the guarantor (GoR): Adequate

The GoR did not avail the WMA and OD facilities from the RBI during FY2016 to FY2020 and had availed WMA from the RBI for only 34 days during FY2021. During FY2022, the state has tapped the WMA window for six days till end-October 2021 (latest data available). Additionally, the GoR had an investment of Rs. 4,200 crore in auction treasury bills and Rs. 129 crore in government securities at end-October 2021. Based on the aforementioned indicators, the liquidity position of the state government can be inferred to be adequate during the recent years.

Rating sensitivities for JVVNL – Not applicable

Rating sensitivities for the guarantor (GoR)

Positive factors: Sustainable improvement in the fiscal balances and leverage levels of the GoR.

Negative factors:

- Sustained deterioration in the GoR's revenue receipts, leading to the continuation of sizeable revenue deficits, and/or a rise in leverage levels and worsening of liquidity indicators
- An increase in the debt outstanding of the state power sector entities (either supported or unsupported by the GoR), 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	Corporate Credit Rating Methodology Rating Methodology for Power Distribution Utilities Rating Approach - Explicit third-party support Policy on Withdrawal of Credit Ratings
Parent/Group Support	The rating is based on the unconditional and irrevocable corporate guarantee to be extended by GoR
Consolidation/Standalone	Not applicable, since the rating is based on the unconditional and irrevocable corporate guarantee to be extended by the GoR

Additional disclosures

Pending actions/documents required to be completed for conversion of the provisional rating into final - Not applicable

Validity of the provisional rating - Not Applicable

Risks associated with the provisional rating - Not applicable

About the company

The Government of Rajasthan unbundled the RSEB with effect from July 19, 2000. The generation, transmission and distribution businesses of erstwhile RSEB were transferred to five companies. The five successor companies were formed on functional lines into three distribution companies (discoms), one generation entity and one transmission entity as listed below:

Generation company	Rajasthan Rajya Vidyut Utpadan Nigam Limited (RRVUNL)
Transmission company	Rajasthan Rajya Vidyut Prasaran Nigam Limited (RRVPNL)
Distribution companies	Jaipur Vidyut Vitran Nigam Limited (JVVNL) Ajmer Vidyut Vitran Nigam Limited (AVVNL) Jodhpur Vidyut Vitran Nigam Limited (JdVVNL)
Power procurement intermediary	Rajasthan Urja Vikas Nigam Limited (RUVNL)

JVVNL is an unbundled state power discom of RSEB. It is engaged in the distribution of electricity in 12 districts of Rajasthan, namely Jaipur, Dausa, Alwar, Bharatpur, Dholpur, Kota, Bundi, Baran, Jhalawar, Sawaimadhopur, Tonk and Karoli.

Key financial indicators

	FY2020	FY2021
Operating Income (Rs. crore)	19,190	21,666
PAT (Rs. crore)	2,219	-673
OPBDIT/OI (%)	2.1%	10.3%
RoCE (%)	-366.9%	-241.3%
Total Outside Liabilities/Tangible Net Worth (times)	-2.5	-2.6
Total Debt/OPBDIT (times)	42.2	8.2
Interest Coverage (times)	0.2	1.1
DSCR (times)	0.2	0.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year).

About the guarantor

The Government of Rajasthan's (GoR's) revenue receipts as a proportion of its GSDP averaged a healthy 14.5% during FY2016-20, reflecting relatively higher access to Central transfers and superior own non-tax revenues, even as its own tax revenues were modest. The revenue expenditure of the state government averaged a substantial 16.7% of GSDP during FY2016-20, led by large power subsidy and Ujwal DISCOM Assurance Yojana (UDAY) contra entries.[1] These trends contributed to a sharp rise in the GoR's revenue deficits from Rs. 5,954 crore (0.9% of GSDP) in FY2016 to Rs. 36,371 crore (3.6% of GSDP) in FY2020. The GoR's capital expenditure and net recovery of loans (led by contra-entries related to the power sector) ranged between 2.2% and 0.9% of GSDP, respectively, during FY2016-20. Accordingly, the overall capital spending and net lending of the state stood at a low 1.2% of GSDP during FY2016-20. Regardless, the GoR's fiscal deficit remained above the Finance Commission-set target during FY2016-20. With the large fiscal deficits and support extended to the power sector, the GoR's leverage level deteriorated to 39.2% of GSDP in FY2020 from 36.0% of GSDP in FY2016.

Amid the Covid-19 pandemic, there was a relatively higher YoY growth in the revenue expenditure (7.4%) of the GoR compared to its revenue receipts (5.5%) in FY2021, widening its revenue deficit further to Rs. 41,722 crore, as per the revised estimates (RE) for that fiscal. In its FY2022 Budget (presented on February 24, 2021), the GoR had forecast its revenue deficit to narrow considerably to Rs. 23,750 crore in the budget estimates (BE) for the current year, led by a sharp expansion in revenue receipts (24.7%) compared to a relatively modest rise in revenue expenditure (9.7%). Despite a healthy 41.5% rise in capital outlay and net lending, the GoR expected its fiscal deficit to decline somewhat to Rs. 47,653 crore in FY2022 BE from Rs. 58,608 crore in FY2021 RE. As per the FY2022 medium term fiscal plan, the GoR's fiscal deficit is pegged at 3.98% of GSDP in FY2022, within the net borrowing limit[2] set for that year.

[1] The GoR had taken over Discom debt under the UDAY scheme in FY2016 and FY2017. For FY2018 and FY2019, the GoR has included recovery of Rs. 15,000 crore loans, to be offset by an equivalent amount to be provided to the Discoms as grants (Rs. 12,000 crore) and equity (Rs.3,000 crore). In FY2020, the GoR has included Rs. 14,722 crore as recovery, which is offset by an infusion of Rs. 13,816 crore as grants and Rs. 908 crore as equity.

[2] The 15th Finance Commission had recommended the states' net borrowing limit to be set at 4.0% of GSDP for FY2022 and allowed an additional borrowing flexibility of 0.5% of GSDP if a state undertakes reforms in the power sector.

Key fiscal indicators of the GoR (Amounts in Rs. crore)

	FY2020	FY2021 RE	FY2022 BE
Revenue			
Revenue Receipts	1,38,917	1,46,591	1,82,743
State's Own Tax Revenue	59,245	68,885	90,050
State's Own Non-Tax Revenue*	14,517	14,335	16,111
Share in Central Taxes	36,049	32,885	40,107
Grants from Centre	29,106	30,486	36,475
Expenditure			
Revenue Expenditure*$	1,75,288	1,88,313	2,06,493
Capital Outlay$	14,718	16,799	24,216
Net Lending$	-13,415	108	-293
Revenue & Fiscal Balance			
Revenue Balance	-36,371	-41,722	-23,750

Note: ** Adjusted for double entries of interest from Departmental Commercial Undertakings; $ Unadjusted for contra entries related to provision of Rs. 13,816 crore as grants (included under revenue expenditure) and Rs. 905 crore as equity (included under capital outlay) to, and recovery of loans from the Discom in FY2020*

Source: *State Budget, Finance Accounts and ICRA Research*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)						Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2021 (Rs. crore)	Date & Rating			Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Jan 31, 2022	Dec 31, 2021		Jan 14, 2021	-	-
1	Proposed Bonds	Long-term	500.00	0.00	**Provisional [ICRA]BBB (CE) (Stable); reaffirmed and withdrawn**	**Provisional [ICRA]BBB (CE) (Stable)**		**Provisional [ICRA]BBB (CE) (Stable)**	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Proposed Bonds	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/ Bank Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Proposed Bonds	NA	NA	NA	500.00	Provisional [ICRA]BBB (CE) (Stable); reaffirmed and withdrawn

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

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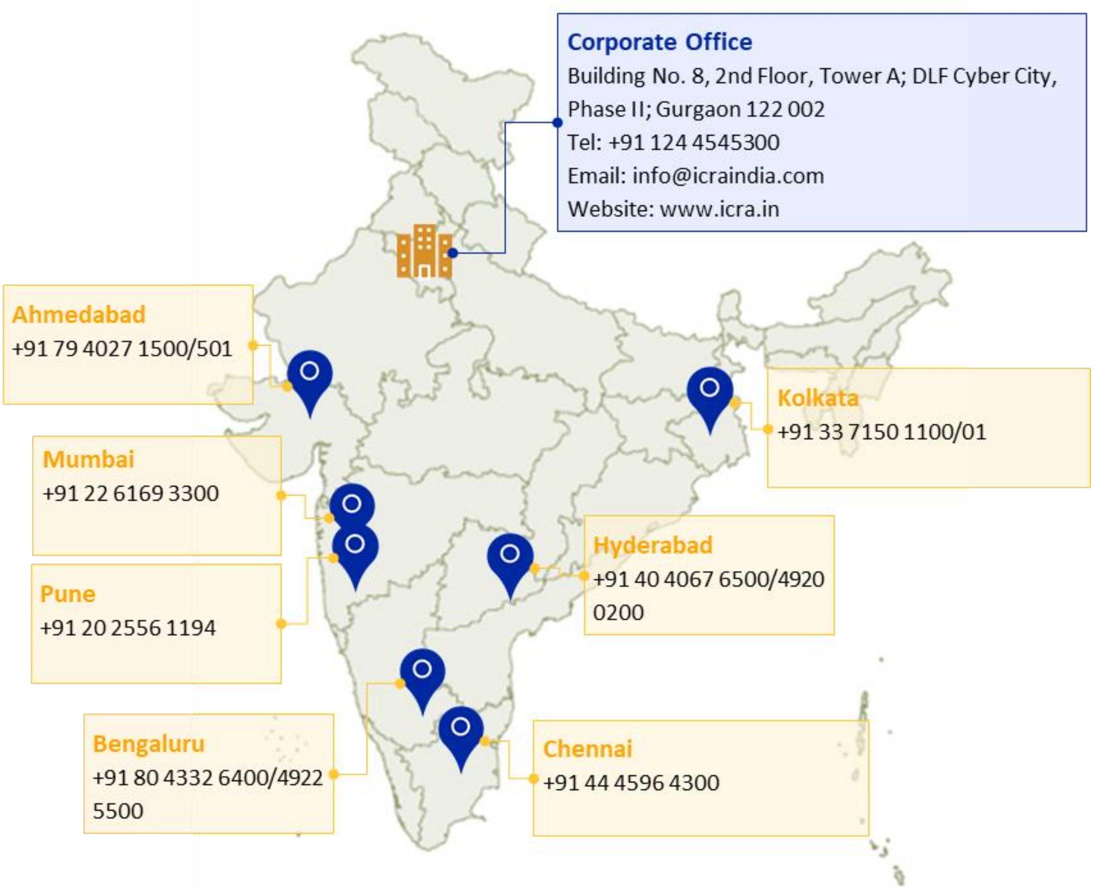

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