

July 06, 2023<sup>(Revised)</sup>

## Punjab Infrastructure Development Board: Rating reaffirmed

### 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	39.22	25.91	[ICRA]BBB-(CE) (Stable); reaffirmed
Rs. 150-crore Deep Discount Bonds- Series III	42.85	42.85	[ICRA]BBB-(CE) (Stable); reaffirmed
<b>Total</b>	<b>82.07</b>	<b>68.76</b>	
<b>Rating Without Explicit Credit Enhancement</b>			<b>[ICRA]BB+</b>

\*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

#### For the [ICRA]BBB-(CE)(Stable) rating

The reaffirmation of the assigned rating reflects the adequate budgetary allocation for debt servicing of Punjab Infrastructure Development Board's (PIDB) bonds by the Government of Punjab (GoP). The latter has extended an unconditional and irrevocable guarantee for repayment of the principal and payment of interest over the tenure of the rated instruments. Therefore, the rating assigned to PIDB's bond programmes primarily reflects the credit profile of the GoP. The rating assigned to the bond programmes of PIDB also factors in the integrity of and the expected adherence to the structured payment mechanism by PIDB. The rating continues to derive comfort from the adequate budgetary allocation for debt servicing of ICRA-rated bonds by the GoP in FY2023 and the expected timely release of the same in the ongoing fiscal, in line with the practice followed during FY2018-FY2023. However, the rating is constrained by PIDB's dependence on the state government, which has a moderate credit profile for the timely debt servicing of bonds. ICRA notes that w.e.f. April 5, 2021, the board has started receiving a special infrastructure development (ID) fee on petrol, diesel and immovable property transactions within the state. While this special levy has improved PIDB's revenue and liquidity profile from FY2022, ICRA believes that support from the state government in the form of budgetary provision for its debt servicing requirements would remain critical.

#### 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. The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenure of the rated instrument and has a well-defined invocation and payment mechanism. Given these attributes, the guarantee provided by 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 changes in the 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 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 among PIDB, the GoP and the Trustee to the bondholders, outlining the obligations of various signatories
- A trigger-enabled mechanism if PIDB fails to adequately fund the escrow account in time

The Stable outlook assigned to the long-term rating reflects ICRA's expectation of satisfactory adherence to the structured payment mechanism by PIDB and ICRA's outlook on the rating of GoP, which has provided strong support to PIDB for debt servicing of the rated bonds. The Stable outlook on the rating of GoP reflects its expected adherence to the fiscal deficit norms set by the Government of India (GoI) for FY2024.

## Key rating drivers and their description

### Credit strengths

**Adequate budgetary allocation by GoP for debt servicing of bonds** – The GoP has been making budgetary allocations for assistance to PIDB (debt servicing and other expenditure) since FY2018. The budgetary allocations made by GoP and the funds released to PIDB were adequate for debt servicing of the ICRA-rated bonds of the Board between FY2018 and FY2023. The GoP has made a budgetary allocation of Rs. 1,034.28 crore in FY2024 as assistance to PIDB, which is adequate for debt servicing of its ICRA-rated bonds (Rs. 25.13 crore) due in FY2024.

**Satisfactory adherence to structured payment mechanism for the rated bonds** – PIDB is required to credit adequate funds to the escrow accounts monitored by a Trustee, by T-10 days to facilitate debt servicing of the ICRA-rated bonds. If the funds are inadequate at T-10 days, the Trustee shall intimate the GoP to make up for 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 repayment of the principal and payment of interest on the ICRA-rated bonds of PIDB. PIDB has been depositing funds in the escrow accounts, in line with the transaction structure of the ICRA-rated bonds.

### Credit challenges

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

## Key rating drivers and their description (of the GoP, the support provider)

### Credit strengths

**Above-average per capita income supports consumption** – Low poverty level (11.3% compared to the national average of 29.5% in 2012), above-average per capita income (Rs. 1,61,888 per capita income in Punjab against all-India per capita income of Rs. 1,48,524 in FY2022) 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) and infant mortality rate (18 per 1,000 persons live birth in 2020) was favourable, compared to the respective national averages (74.0%, 31.2% and 28 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 (2,251 kilowatt-hours in 2022, nearly double the national average of 1,115 kilowatt-hour), five airports (one international and four domestic including Chandigarh) and an above-average road density (2,936 per 1,000 km, compared to the national average of 1,652 per 1000 km in 2019).

## Credit challenges

**High outgo on committed items** – The combined outgo on salary, pension, and interest payments of the GoP stood at an average of 69% of its total revenue expenditure and 84% of its revenue receipts during FY2018-22, higher than most other states.

**Large power subsidy** – The provision of power at subsidised tariffs for agricultural consumers and industrial consumers led to a high 15% of the revenue receipts and 12% of the revenue expenditure of the GoP as power subsidy during FY2018-22. The GoP's power subsidy is estimated to increase sharply to Rs. 20,200 crore in FY2023 RE and Rs. 20,274 crore in FY2024 BE from Rs. 13,443 crore in FY2022.

**Unfavourable revenue balance** – The GoP's revenue deficit increased to Rs. 18,468 crore in FY2022 (3.2% of GSDP) from Rs. 17,296 crore (3.3% of GSDP) in FY2021.

**High leverage<sup>1</sup> levels relative to GSDP** – Reflecting the consistently large fiscal deficits and support extended to the power and civil supplies sector, the GoP's leverage stood at an adverse 45.9% of GSDP in FY2022.

## Liquidity position of the support provider (GoP): Adequate

The GoP had consistently availed the Ways and Means Advances and Overdraft (OD) facilities from the RBI during FY2016 to FY2020. However, in the pandemic affected FY2021, the GoP's usage of the liquidity from the WMA window dropped sharply to 67 days from 196 days in FY2020 and 230 days in FY2019. Moreover, unlike in the recent years, the GoP did not avail the OD facility from the RBI in FY2021. The GoP did not tap the WMA and the OD facility in FY2022 and in FY2023. Based on the marked reduction in tapping the WMA window and the absence of usage of the OD facility by the GoP during FY2021-23 relative to the recent years, its liquidity position is inferred to be adequate, in spite of its high fiscal deficits and leverage levels.

## Liquidity position of PIDB: Adequate

PIDB is completely dependent on 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 FY2024, the GoP has made a budgetary allocation of Rs. 1,034.28 crore in its annual budget as assistance to PIDB, which is adequate for debt servicing of its ICRA-rated bonds in FY2024 (Rs. 25.13 crore) as well as for non-ICRA rated term loans (Rs. 60.00 crore).

## Rating sensitivities for PIDB

**Positive factors** – The [ICRA]BBB-(CE)/Stable rating could be upgraded in case of a sustained improvement in the revenue account balance, leverage levels and liquidity indicators of GoP.

**Negative factors** – The [ICRA]BBB-(CE)/Stable rating could be downgraded in case of a sustained deterioration in GoP's revenues, resulting in widening of revenue deficits, and/or a rise in the 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), resulting in a significant worsening of the consolidated leverage levels of the state government and its power entities may also put pressure on the rating. Any non-adherence to the structured payment mechanism by PIDB could lead to a downward revision in the rating of its bond programmes. Further, any weakening in the linkages of PIDB with the state government could result in a rating downgrade.

<sup>1</sup> Adjusted for GST compensation back-to-back loans transferred to the GoP by the GoI in FY2021 (Rs. 8,359 crore) and FY2022 (Rs. 12,132 crore), as the same is to be serviced by the GoI from the GST compensation cess collections and are not the actual liability of the state government.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for State Governments</a>
Parent/Group support	Parent: Government of Punjab (GoP) The assigned rating factors in the credit profile of GoP, which has extended an unconditional and irrevocable guarantee along with adequate budgetary allocations for servicing of the rated bonds.
Consolidation/Standalone	Standalone

## About the company

PIDB is a statutory body with the Chief Minister, Punjab as its Chairman. 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. PIDA was subsequently replaced by the Punjab Infrastructure (Development & Regulation) Act, 2002 (PIDRAA) effective July 11, 2002 to provide for creation, development, maintenance and operation of infrastructure and for matters connected therewith or incidental thereto. The act passed in 2002 retained the Board's role as a nodal agency for the overall planning for infrastructure development in the state. The main source of revenues of PIDB was infrastructure development (ID) fees, levied on sale of specific agricultural items (wheat and paddy), petrol, diesel, consumption of electricity and purchase of immovable property at rates notified by the Government of Punjab (GoP).

Subsequently, in July 2017, the GoP notified the Punjab Infrastructure (Development & Regulation) Amendment Act (PIDRAA), 2017. As per PIDRAA, 2017, ID fee levied on sale of specific items (paddy, wheat, 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 GoP.

On March 25, 2021, the GoP notified PIDRAA, 2021, which includes a provision to levy a special ID fee on petrol, diesel and immovable property by the state government at a rate notified by it. PIDRAA, 2021 mentions that special ID fee would be collected and deposited directly in PIDB's Development Fund, which was created under Section 27 of PIDRA 2002.

PIDRAA, 2021 came into effect on April 5, 2021, wherein the Governor of Punjab notified additional levy of special ID fee of Rs. 0.25 per litre on sale of petrol and diesel within Punjab and Rs. 0.25 for every Rs. 100 of the value of purchase of immovable property within Punjab. This incremental special ID fee is being transferred directly to PIDB's development fund and it is reflecting in its accounts from FY2022.

### Key financial indicators of PIDB (audited)

PIDB	FY2021	FY2022	FY2023*
Operating Income	1046.6	240.8	283.3
Operating Expenditure	824.4	353.6	865.1
<b>Operating Profit/Loss</b>	<b>222.2</b>	<b>(112.8)</b>	<b>(581.8)</b>
Interest expenditure	99.1	175.4	67.8
Principal redemption	880.5	-	-
Depreciation	0.2	0.2	0.2
Non-Operating Income	135.8	76.0	59.3
<b>Excess of Income over expenditure</b>	<b>(621.9)</b>	<b>(212.4)</b>	<b>(590.4)</b>

Source: KWSPF, ICRA Research; Amount in Rs. crore; \*PIDB's Estimates

## About the GoP's Finances

The GoP's revenue receipts, as a proportion of the state's GSDP, have improved to 13.4% in FY2022 from 11.2% in FY2017. This was largely led by a 2.4 percentage point rise in grants from the Centre during FY2017 to FY2022, reflecting an increase in the GST compensation grants and Finance Commission (FC) recommended grants. While the Central tax devolution increased by a mild 0.4 percentage points during FY2017-22, the state's own tax revenues (SOTR) and state own non-tax revenues (SONTR) declined by a combined 0.6 percentage points during this period.

Relative to the increase in revenue receipts, the GoP's revenue expenditure rose by a higher 3.6 percentage points during FY2017 (12.9% of GSDP) to FY2022 (16.5% of GSDP), largely led by power subsidies, committed expenditure and assignment to local bodies. Accordingly, the GoP's revenue deficit has nearly doubled to 3.2% of GSDP in FY2022 from 1.7% of GSDP in FY2017. The GoP's capital spending has been low and stood in the range of 0.8-1.6% of GSDP during FY2017-22. According to the Comptroller and Auditor General of India, the GoP was able to curtail its fiscal deficit below the FC targets between FY2017 and FY2022. Reflecting the sustained fiscal deficits and support extended to the power and civil supplies sector, the GoP's leverage level (debt + guarantees but excluding GST compensation loans) remained adverse at ~46% of GSDP between FY2017 and FY2022.

In the Budget Estimate (BE) for FY2024, the GoP has forecasted that its revenue deficit would widen to Rs. 24,589 crore from Rs. 23,891 crore in the revised estimates (RE) for FY2023. Along with a modest 13.9% expansion in capital expenditure, the GoP's fiscal deficit is budgeted to rise to Rs. 34,784 crore in FY2024 BE from Rs. 33,216 crore in FY2023 RE.

ICRA would continue to analyse the evolving trends in the GoP's revenues and expenditure in FY2024, including the policy measures taken by the state for augmenting its revenues and implementing the social sector schemes, and assess the state government's fiscal position relative to the FY2024 BE. ICRA would continue to monitor the financial health of the GoP's power sector entities and their impact on the state's finances.

### Key financial indicators of the GoP

GoP	FY2022	FY2023 RE	FY2024 BE
Revenue Receipts*	78,053	93,461	98,680
Revenue Expenditure*	96,522	117,352	123,269
Revenue Balance	-18,468	-23,891	-24,589
Capital Outlay & Net Lending	9,379	9,825	11,195
Fiscal Balance	-27,847	-33,216	-34,784

\*Adjusted for double entries of interest on loans of departmental commercial undertakings (DCUs) and state lotteries

Source: State Budget and ICRA Research; RE (Revised Estimates); BE (Budget Estimates)

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for past three years

Instrument	Type	Current Rating (FY2024)			Chronology of Rating History for the past 3 years				
		Amount Rated (Rs. crore)	Amount Outstanding (crore) as on May 19, 2023	Date and Rating on July 06, 2023	Date & Rating				
					FY2023	FY2022	FY2021		
					July 25, 2022	July 29, 2021	Feb 01, 2021	May 14, 2020	
1 Rs. 500 crore Deep Discount Bonds – Series II	Long-term	25.91	25.91	[ICRA]BBB-(CE) (Stable)	[ICRA]BBB-(CE) (Stable)	[ICRA]BBB-(CE) (Stable)	[ICRA]BBB-(CE) (Negative)	[ICRA]BBB-(CE) (Negative)	
2 Rs. 150 crore Deep Discount Bonds Series III	Long-term	42.85	42.85	[ICRA]BBB-(CE) (Stable)	[ICRA]BBB-(CE) (Stable)	[ICRA]BBB-(CE) (Stable)	[ICRA]BBB-(CE) (Negative)	[ICRA]BBB-(CE) (Negative)	

## Complexity level of the rated instruments

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 are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE091D11063	Rs. 500 crore Deep Discount Bonds – Series II	Dec 27, 2007	10.19%	Dec 27, 2023	5.05	[ICRA]BBB-(CE)(Stable)
INE091D11071				Dec 27, 2024	1.04	
INE091D11089				Dec 27, 2025	12.48	
INE091D11097				Dec 27, 2026	6.01	
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	6.77	
INE091D11147				Oct 15, 2027	2.49	
INE091D11154				Oct 15, 2028	0.25	
INE091D11162				Oct 15, 2029	7.04	
INE091D11170				Oct 15, 2030	7.42	
INE091D11204				Oct 15, 2033	3.61	

Source: PIDB

**Annexure II: List of entities considered for consolidated analysis: Not applicable**
**Corrigendum**

In Analytical Approach section, added “Corporate Credit Rating Methodology” in the applicable rating methodologies in rationale dated July 06, 2023. The links for Rating Approach – Implicit parent or group support, Rating approach – Structural Features (Non-Securitisation Transactions) and Rating Approach – Explicit third-party support, have been removed, which are mentioned in the Corporate Credit Rating Methodology.

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