

July 04, 2024

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	20.86	20.86	[ICRA]BBB-(CE) (Stable); reaffirmed
	5.05	0.00	[ICRA]BBB-(CE) (Stable); reaffirmed and withdrawn
Rs. 150-crore Deep Discount Bonds- Series III	42.60	42.60	[ICRA]BBB-(CE) (Stable); reaffirmed
	0.25	0.00	[ICRA]BBB-(CE) (Stable); reaffirmed and withdrawn
Total	68.76	63.46	
Rating Without Explicit Credit Enhancement			[ICRA]BB+

*Instrument details are provided in Annexure-I

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 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 factors in the integrity 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 FY2025 and the expected timely release of the same in the ongoing fiscal, in line with the practice followed during FY2019-FY2024. However, the rating is constrained by PIDB's dependence on the state government, which has a moderate credit profile for 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 the GoP reflects ICRA's expectation of the state's debt relative to GSDP in FY2025 to remain range-bound around the levels in FY2024.

ICRA has withdrawn the rating assigned to the Rs. 5.30 crore long-term bonds as these bonds have been fully redeemed either through maturity/ exercise of buy back option by the PIDB, and no amount is outstanding against the same. The rating was withdrawn in accordance with ICRA's withdrawal policy (click [here](#) for the policy).

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 FY2024. The GoP has made a budgetary allocation of Rs. 455.1 crore in FY2025 as assistance to PIDB, which is adequate for debt servicing of its ICRA-rated bonds in FY2025 (Rs. 58.5 crore) as well as for non-ICRA rated term loans (Rs. 130.2 crore) due in FY2025.

Satisfactory adherence to structured payment mechanism for 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 and healthy socio-economic indicators – Above-average per capita income relative to all-India level (Rs. 1,82,515 vs. Rs. 1,69,496 in FY2023) and remittances support consumption in the state. Moreover, 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 universal irrigation coverage, substantial per-capita availability of power (2,497 kilowatt-hours in 2023, more than double the national average of 1,221 kilowatt-hour), five airports (one international and four domestic airports including Chandigarh) and an above-average road density (2,936 per 1000 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 averaged at 66% of its total revenue expenditure and 82% of its revenue receipts during FY2019-FY2023, higher than most other states.

Large power subsidy – The GoP's power subsidy outgo nearly doubled to Rs. 17,867 crore in FY2023 from Rs. 9,394 crore in FY2020, led by rise in agricultural consumers and industrial consumers. This was reflected in the GoP's policy to provide 300 units of domestic power supply per month free from July 2022 onwards. Moreover, a portion of the increase in the GoP power subsidy in FY2023 from the previous years is on account of release of arrears. As a proportion of GSDP, the GoP's power subsidy rose to 2.6% in FY2023 from 1.7% in FY2020, higher than several other Indian states.

Unfavourable revenue and fiscal deficit – The GoP's revenue deficit increased to Rs. 26,045 crore in FY2023 (3.9% of GSDP), nearly twice as large as the revenue deficit in the pre-Covid period. In the same period, the GoP's fiscal deficit rose to Rs. 33,930 crore (5.0% of GSDP) from Rs. 16,825 crore (3.1% of GSDP).

High leverage¹ 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 44.2% of GSDP in FY2023. However, this is four percentage points lower than the leverage of 48.3% of GSDP in FY2021.

Liquidity position of the support provider (GoP): Adequate

The GoP had consistently availed the ways and means advance (WMA) 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, the GoP did not avail the OD facility from the RBI in FY2021. The GoP did not avail the WMA and the OD facility in FY2022 and in FY2023. However, In FY2024, the GoP availed the WMA window for 105 days and OD for 16 days. In April 2024, the GoP availed the WMA for 23 days and OD for 14 days. Based on the moderate usage of the WMA and the OD facility by the GoP in FY2024, its liquidity position is inferred to be adequate.

Liquidity position of PIDB: Adequate

PIDB is 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 FY2025, the GoP has made a budgetary allocation of Rs. 455.1 crore in its annual budget as assistance to PIDB, which is adequate for debt servicing of its ICRA-rated bonds in FY2025 (Rs. 58.5 crore) as well as for non-ICRA rated term loans (Rs. 130.2 crore). Further, PIDB's own revenue from Special Infrastructure Development fee is sizeable, which can be used for debt servicing.

Rating sensitivities

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 the GoP.

¹ Adjusted for Rs. 8,359 crore and Rs. 12,132 crore, respectively, GST compensation and back-to-back loans transferred to the GoP by the GoI in FY2021 and FY2022, 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.

Negative factors – The [ICRA]BBB-(CE)/Stable rating could be downgraded in case of widening revenue deficits of the GoP, and/or a material rise in the leverage levels and worsening of liquidity indicators of the GoP. 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.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology State Governments Policy on Withdrawal of Credit Ratings
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	FY2022	FY2023	FY2024*
Operating income	240.8	282.7	282.8
Operating expenditure	353.6	865.1	1,105.1
Operating profit/ loss	(112.8)	(582.4)	(822.3)
Interest expenditure	175.4	67.7	127.9
Depreciation	0.2	0.2	0.1
Non-operating income	76.0	59.5	29.3
Excess of income over expenditure	(212.4)	(590.8)	(921.1)

Source: PIDB; Amount in Rs. crore; *PIDB's Estimates

About the GoP's finances

Punjab is a small, land-locked state, with a relatively larger share of agriculture in its gross state value added (GSVA) than the national average. The industrial sector in Punjab is dominated by agro-processing, textiles, apparel, automobile parts and hand and machine tools. Punjab's performance on various socio-economic indicators, including the per-capita income (Rs. 1,82,515 in FY2023) 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 (Rs. Rs. 1,69,496; 74.0%, 31.2% and 28 per 1,000 persons).

The GoP's revenue receipts as a proportion of gross state domestic product (GSDP) was at a healthy 12.4% during FY2019-FY2023, led by grants from the Centre. During this period, the revenue expenditure of the GoP was higher at 15.4% reflecting spending on committed items (salaries, pensions, and interest payments) as well as power subsidy. Notably, the GoP's outgo on power subsidy doubled to Rs. 17,867 crore in FY2023 from Rs. 8,795 crore in FY2019, reflecting the policy of the state government to provide 300 units of domestic power supply per month free from July 2022 onwards. Accordingly, the state recorded large revenue deficits in the range of 2.6-3.9% of GSDP during that period. The GoP's capital spending during FY2019-FY2023 has been modest (0.9-1.5% of GSDP), reflecting limited fiscal space available with the state on account of elevated revenue deficits. Reflecting these trends, the GoP's fiscal deficit ranged within 3.1-5.0% of GSDP during FY2019-FY2023. With high fiscal deficits and support extended to the power and civil supplies sector, the GoP's leverage level (debt + guarantees excluding GST compensation loans) remained adverse at ~45% of GSDP between FY2019-23.

Despite the decline in the GoP's revenue deficit to Rs. 23,812 crore in the revised estimates (RE) for FY2024 from Rs. 26,045 crore in FY2023, it still remained large. Reflecting a 16.3% YoY contraction in capital expenditure, the state's fiscal deficit is expected to narrow to Rs. 30,311 crore in FY2024 RE from Rs. 33,390 crore in FY2023. Subsequently, in the FY2025 budget estimates (BE), the GoP expects its revenue deficit to ease to Rs. 23,198 crore. However, with an ~18% expansion in capital spending in FY2025 BE, the state's fiscal deficit is expected to widen to Rs. 30,465 crore in the ongoing fiscal.

ICRA would analyse the GoP's provisional actuals for FY2025 to assess the performance of their key fiscal indicators relative to FY2025 BE. ICRA would continue to analyse the policy measures taken by the state for augmenting its revenues, managing its cashflows, and rationalisation of its revenue spending. 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

	FY2023	FY2024 RE	FY2025 BE
Revenue receipts*	87,515	98,836	1,03,785
Revenue expenditure*	1,13,560	1,22,647	1,26,984
Revenue balance	-26,045	-23,812	-23,198
Capital outlay and net lending	7,885	6,599	7,767
Fiscal balance	-33,930	-30,311	-30,465

*Adjusted for double entries of interest on loans of departmental commercial undertakings (DCUs) and state lotteries; Amount in Rs. crore

Source: State Budget, CAG 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 (FY2025)		Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Date and Rating on	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	
			July 04, 2024	July 06, 2023	July 25, 2022	July 29, 2021	
Rs. 500-crore 1 Deep Discount Bonds – Series II	Long-term	20.86	[ICRA]BBB-(CE) (Stable)	[ICRA]BBB-(CE) (Stable)	[ICRA]BBB-(CE) (Stable)	[ICRA]BBB-(CE) (Stable)	
		5.05*	[ICRA]BBB-(CE) (Stable); withdrawn	[ICRA]BBB-(CE) (Stable)	[ICRA]BBB-(CE) (Stable)	[ICRA]BBB-(CE) (Stable)	
Rs. 150-crore 2 Deep Discount Bonds Series III	Long-term	42.60	[ICRA]BBB-(CE) (Stable)	[ICRA]BBB-(CE) (Stable)	[ICRA]BBB-(CE) (Stable)	[ICRA]BBB-(CE) (Stable)	
		0.25*	[ICRA]BBB-(CE) (Stable); withdrawn	[ICRA]BBB-(CE) (Stable)	[ICRA]BBB-(CE) (Stable)	[ICRA]BBB-(CE) (Stable)	

* Fully redeemed either through maturity/exercise of buy back option by the PIDB

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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE091D11071	Rs. 500 crore Deep Discount Bonds – Series II	Dec 27, 2007	10.19%	Dec 27, 2024	1.04	[ICRA]BBB-(CE)(Stable)
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	
INE091D11162				Oct 15, 2029	7.04	
INE091D11170				Oct 15, 2030	7.42	
INE091D11204	Oct 15, 2033	3.61				
INE091D11063	Rs. 500 crore Deep Discount Bonds – Series II	Dec 27, 2007	10.19%	Dec 27, 2023	5.05*	[ICRA]BBB-(CE)(Stable);
INE091D11154	Rs. 150 crore Deep Discount Bonds – Series III	Oct 15, 2008	11.98%	Oct 15, 2028	0.25*	Withdrawn

Source: PIDB; * Fully redeemed either through maturity/exercise of buy back option by the PIDB

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

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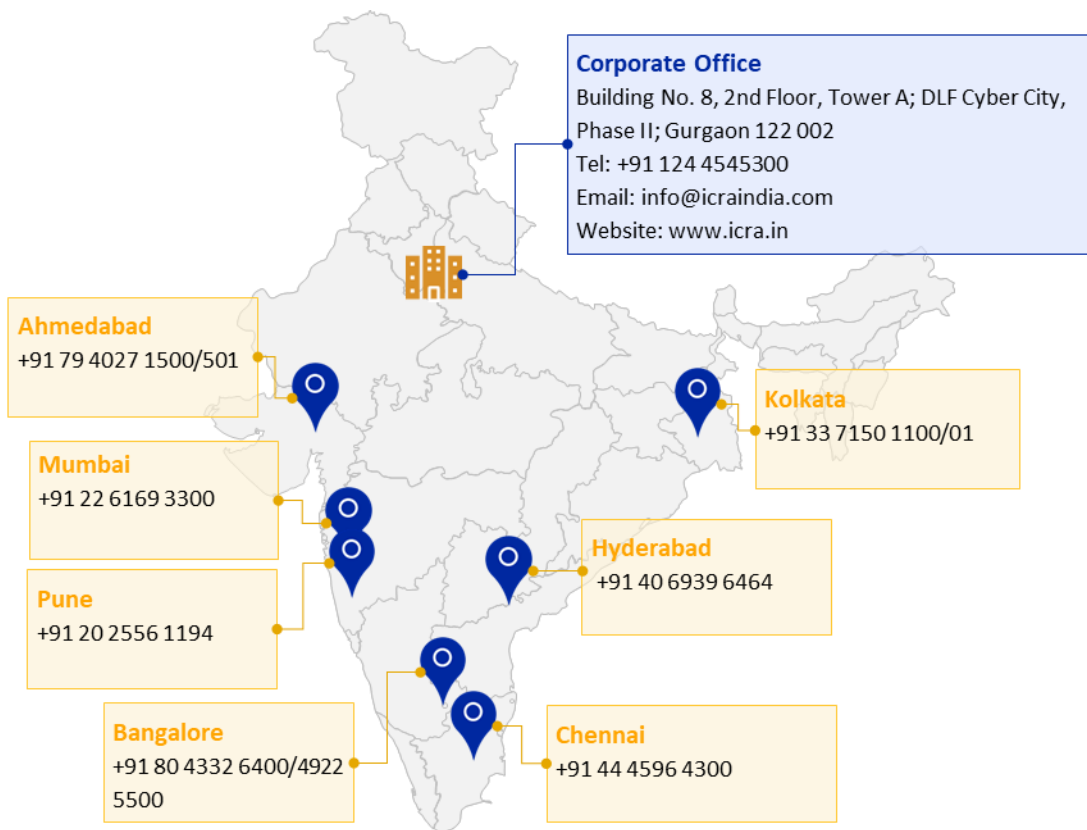
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