

August 13, 2013 - Mumbai

Facilities	Amount (Rs. Crores)	Rating
Non-Convertible Debentures (NCD) Issue	600 (Rs.400 crores with a green shoe option of Rs.200 crores)	SMERA A(SO)* (in-principle, assigned)

**Credit enhancement on account of an unconditional and irrevocable guarantee from the Government of Rajasthan (GoR)*

SMERA has assigned an **in-principle** rating of '**SMERA A(SO)**' - read as (**SMERA A structured obligation**), to Rajasthan State Power Finance Corporation Limited's (RSPFCL) Rs.600 crores non-convertible debentures issue. The outlook is '**Stable**'. The rating draws core support from the Government of Rajasthan's (GoR) unconditional and irrevocable guarantee proposed to be extended towards the timely payment of principal and interest on the NCDs. The rating accordingly factors in the guarantor's credit risk profile.

The in-principle rating is provisional and the final rating is subject to the execution of an unconditional and irrevocable guarantee to be extended by GoR for timely payment of interest and principal on the instrument and execution of a trust deed (with a SEBI registered trustee) which clearly outlines the payment mechanism, escrow mechanism and rights and obligations of various parties involved in the issuance.

The ratings also centrally factor in adherence to a specific, legal payment mechanism administered by the trustee of the NCD. The payment mechanism for the twelve year bond (Rs.600 crores issue) is as follows:

- RSPFCL shall ensure that 15 days before every due date (bond obligation date, T-15) the required funds towards bond obligations are deposited in the designated account opened in a nationalized bank.
- In case RSPFCL fails to deposit the funds till ten days prior to the due date (T-10), the trustee shall enforce an escrow arrangement and instruct the escrow banker to immediately transfer the bond obligation(s) to the designated account.
- In the event of any shortfall of funds on 7th day prior to every due date for payment interest and/or principal installment, the trustee would on the same day intimate the Secretary (Budget), Finance Department, GoR or any other designated official to get the funds transferred to the designated account at least one day (T-01) to facilitate payment of interest and principal repayment to the bond holders.
- If the required funds are not transferred to the designated account till two calendar days before the due date, the trustee will invoke the guarantee.
- On receipt of invocation notice (T-01); GoR will deposit clear funds to the extent of shortfall into TRA, prior to the due date.

Rajasthan's credit profile benefits from an improving economic structure and rising contribution from the tertiary sector (48.8 per cent for FY2012-13, as per economic review) which adds buoyancy to the state's tax revenues. Rajasthan also benefits from a satisfactory economic and

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financial infrastructure. The state's financial position is characterized by healthy deficit parameters and high interest coverage levels. Rajasthan is one of the few states in India to have a revenue surplus budget. Rajasthan's fiscal deficit is within the Fiscal Responsibility and Budget Management (FRBM) targets and has reduced from 1.21 per cent of the gross state domestic product (GSDP) in FY2010-11 to 0.87 per cent of the GSDP in 2011-12 (actual). The state's revenue surplus for FY2011-12 stood at 0.8 percent. Rajasthan's interest coverage ratio has improved to 1.4 times in FY2011-12 as compared with 1.1 times a year earlier.

Rajasthan's committed expenditure to total expenditure stood at 53.10 per cent 2011-12 (actual). The state's per capita income is however lower than other peer rated states. Rajasthan's debt (excluding guarantees) stood at 25.57 per cent of GSDP for FY2011-12 (29.04 per cent for FY2010-11), which is within the FRBM prescribed limits.

Outlook: Stable

In SMERA's opinion, GoR's credit profile to continue to benefit from a comfortable economic and fiscal profile. A material and sustained improvement or deterioration in fiscal and economic profile of the state could lead to a revision of its outlook.

About RSPFCL

The Rajasthan State Power Finance Corporation Limited (RSPFCL) incorporated on December 21, 2012, is a wholly owned by Government of Rajasthan (GoR). RSPFCL is an RBI registered Non Banking Finance Company (NBFC). GoR's finance department is RSPFCL's designated administrative department. RSPFCL would support Rajasthan state's power sector by assisting the utilities in arranging finances, extend loans to the utilities and provide such ancillary services. RSPFCL's net worth stood at Rs.90 crore as on August 5, 2013.

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