
Rating Rationale for West Bengal Infrastructure Development Finance Corporation Ltd's Long Term NCD Issue of INR 500 Crore with Green Shoe option of INR 500 Crore

Long Term NCD Issue Rating: BWR A- (SO)

Outlook : Stable

Brickwork Ratings (BWR) has assigned BWR A- (SO) [Pronounced BWR A minus (Structured Obligation)] for West Bengal Infrastructure Development Finance Corporation Ltd's (WBIDFC or "the Corporation") proposed Long Term Non-Convertible Debentures (NCD) issue of Rs. 500 Crore with a Green Shoe option of Rs. 500 Crore. The debentures would have a tenor of 10 years and would be fully guaranteed by the Government of West Bengal, besides having a sinking fund mechanism to facilitate redemption.

BWR A- (SO)' stands for an instrument that is considered to offer Adequate credit quality / safety in terms of timely servicing of principal and interest obligations.

BWR has essentially relied upon the WBIDFC's audited financial results, unaudited published results of September 2009, projected financials, published State Government budget documents, observations of CAG audit report on finances of GoWB, and information and clarification provided by the Corporation.

WBIDFC

WBIDFC is wholly owned by the GoWB and entire share capital of Rs. 120.3 Crore is contributed by the State Government. The company provides fund support to the State Government for creation of infrastructure facilities for primary, secondary and tertiary sectors in West Bengal. In addition to mobilization of resources, WBIDFC assists the Government for obtaining securitized loans (e.g. Cess receivables) and providing advisory services to various Government Departments. In 2005, WBIDFC launched a housing project called 'Sankalpa' as developer/owner of the project at Rajarhat, Kolkatta. In consonance with its policy, the corporation has associated with several direct infrastructure projects in power, steel and construction sector and has established its visibility in the infrastructure financing scene of the State.

Thus, currently, there are three business operations of WBIDFC, namely -

- i. To fund infrastructure projects initiated by the State Government
- ii. To lend to corporate sector to build up the infrastructure of the State and
- iii. To develop the residential complex at Rajarhat, Kolkatta.

WBIDFC is a consistently profit making Corporation. Its Networth as on 31st March, 2009 was Rs. 667 Crore as compared to Rs. 621 Crore in March, 2008. Bonds, guaranteed by the GoWB are the major source of funds for WBIDFC followed by short term loans and CESS loans from banks. As per the audited balance sheet for 2008-09, out of Loan Funds of Rs. 8846 Crore,

Bonds guaranteed by GoWB constituted Rs. 5476.5 Crore; Short Term loans from banks Rs. 1871 Crore while CESS Loan from banks amounted to Rs. 684.5 Crore. The debt-equity ratio of WBIDFC was 13.24 in FY09 against 15.80 in FY08.

The corporation's total income declined to Rs. 897 Crore for FY 09 as compared to Rs. 972.6 Crore in FY08 due to substantial decline in interest income. Interest expenses and financial expenses have also declined to Rs. 807.5 Crore and Rs. 1.97 Crore respectively in FY09 as compared to Rs. 935 Crore and Rs. 9.32 crore respectively in FY08. However, Administrative and other expenses have increased substantially to Rs. 42 Crore in FY09 as compared to Rs. 17.8 Crore in FY08, mainly on account of construction related expenditure for Sankalpa Housing Project during the year.

Operating profit for FY09 increased to Rs. 41.7 Crore, significantly higher than Rs. 10.1 Crore in FY08. PAT for FY09 at Rs. 25.5 Crore was also higher than Rs. 12.6 Crore recorded in FY 08.

WBIDFC's Abridged balance sheet, P&L, for the period FY07 - FY09 and performance up to Sept. 2009 have been given in Annexure I and II respectively.

USE OF FUNDS

The proceeds from the proposed NCD issue would be utilized for lending to the GoWB to support its annual plan for 2009-10. The Government of India has provided consent under Article 293(3) of the Constitution of India to the GoWB for availing Negotiated Loans from WBIDFC to the tune of Rs. 1000 Crore to support its Plan Programme during F.Y. 2009-10.

GOVT. GUARANTEE AND SINKING FUND MECHANISM

The proposed NCD issue would be backed by an unconditional and irrevocable Guarantee from Government of West Bengal for the entire amount of the issue to meet redemption obligations and further supported by a Sinking Fund mechanism. The Sinking Fund mechanism involves build-up of funds, which will grow up to cover 25% to 50% of the amount due for redemption of bonds, by way of bank deposits, G-Sec, SDL and triple A rated PSU bonds. The Corporation will appoint a SEBI registered debenture trustee who will be vested with the appropriate powers to ensure prompt servicing of debt and to protect the interests of the debenture holders. The sinking fund shall be under specific lien/pledge to the Debenture Trustee for meeting redemption of the debentures.

WEST BENGAL ECONOMY

West Bengal is one of India's largest economies, producing 10% of its steel, 20% of its tea, 22% of its leather, and 13% of its total polymer production, with one of the largest petrochemical hubs in the country at Haldia. West Bengal occupies about 2.7% of total area while it has the highest population density among all other states at 903 people per square kilometer. Almost

70% of its population is dependent on agriculture and the state is one of the largest producers of rice, potatoes and oil seeds.

West Bengal's Gross State Domestic Product (GSDP) at current prices for the year 2007-08 stood at Rs. 303705 Crore, of which Services sector occupied major share of 54% while Agriculture and Industries had a share of almost 23% each. GSDP has grown at an average rate of about 13% over the period 2005-08. However, the per capita income of the State at Rs. 24085 was way below the other states like Punjab, Maharashtra or Haryana etc. though the state's literacy level at 69% is above the national average.

WEST BENGAL FINANCES

West Bengal's Revenue receipts have shown consistent growth over the period 2005-2008. However, Share of State's Own Tax Revenue in gross Revenue Receipts has been declining over the years and dependence on central government has been increasing (Table 1).

Table 1: Revenue Receipts

	2005	2006	2007	2008	2009 RE	2010 BE
Revenue Receipts (Rs Crore)	19918	23726	25828	30167	40777	42312
State Own Tax Revenue	50%	44%	45%	44%	40%	46%
State Non-Tax Revenue	7%	4%	5%	5%	13%	6%
Share in Central Tax	32%	28%	33%	36%	31%	33%
Grants from Center	11%	24%	17%	16%	16%	15%
Rate of growth of Revenue Receipts	19.92%	19.11%	8.86%	16.8%	35.17%	3.76%

Sales Tax has been the major contributor to State's Tax Revenue accounting for almost 60% share. Imposition of an additional Stamp Duty on high value flat / house, linking Excise Duty to maximum retail price, imposition of VAT on tobacco and tobacco products, installation of weigh bridges at suitable locations to check driving of overloaded vehicles etc. contributed to increase in Tax Revenue.

State Non Tax Revenue which comprises of Interest receipts, dividends and profits and Other Non-tax receipts increased by almost 8% in 2009 over 2008 due to significant increase in interest receipts. However, Dividends and profit accounted for very low share of non-tax revenues reflecting lack lustre performance of the state owned units.

Revenue Expenditure had a predominant share in the Total Expenditure around 85% during the year 2009, the remaining portion accounted by Capital Expenditure. Of the total Revenue Expenditure, the Non Plan Revenue Expenditure continued to share its major proportion which was almost 82% during 2008-09. However, Plan Revenue Expenditure is also growing implying government's focus towards infrastructure development. On the other hand, increase in

committed expenditure, especially salaries and interest payments, further puts pressure on state government's flexibility of spending on development activities (Table 2).

Table 2: Committed Expenditure

	2005	2006	2007	2008	2009 RE	2010 BE
Committed Expenditure of which (Rs. Crore)	23123	24365	26067	28526	31197	43626
Salary	9802	10161	10876	12205	14058	21013
Pension	3336	3642	3553	3995	4302	8991
Subsidy	218	594	460	733	470	453
Interest Payments	9767	9969	11179	11593	12367	13169
Committed Exp as % of Revenue Receipts	116%	103%	101%	95%	77%	103%

The state has shown consistently high levels of debt in relation to GSDP. Debt to GSDP ratio is estimated to increase to 54.27% in FY10 (Table3). The growth rate of debt was 9.81% during FY08 over FY07 while it has grown by 7.7% in FY09 over FY08.

Table 3: Debt

	2005	2006	2007	2008	2009 RE	2010 BE
Total Debt (Rs. Crore)	104334	113493	122398	134402	144781	164832
Debt to Revenue Receipts (%)	523.8%	478.4%	473.9%	445.5%	355%	389.6%
Debt to GSDP ratio (%)	55.2%	53.42%	49.63%	48%	47.67%	54.27%

The State's Revenue Deficit has been consistently above Rs. 8000 Crore except in 2006. Lower realization from State Own Tax Revenue, declining Non-tax revenue, and substantial increase in committed expenditure are expected to further widen the revenue deficit to Rs. 17940 Crore during 2010. The fiscal deficit decreased marginally from Rs. 11430 Crore in 2007 to Rs. 11400 Crore in 2008, but is estimated to escalate to Rs. 22984 Crore during 2010.

The ratio of Revenue Deficit to Fiscal Deficit, which indicates the extent to which borrowed funds are used for current revenue expenditure, was consistently above 71, indicating that more than 70% of borrowed funds were used for current revenue expenditure and that the asset base of the State was continuously shrinking and increasingly a part of borrowings were not having any asset backup.

RATING OUTLOOK

BWR rating has, inter alia, factored the Corporation's performance and role in infrastructure development, credit enhancements in the form of unconditional and irrevocable guarantee given by the Government of West Bengal (GoWB) for fully meeting the redemption of the NCDs and the Sinking Fund mechanism, besides WBIDFC's track record of timely payment of coupon and

bond redemption. The rating is, however, constrained by high level of State Government's debt in relation to Gross State Domestic Product (GSDP) and revenue receipts, widening deficit levels, very high committed expenditure, declining share of tax revenue in overall revenue receipts and increasing dependence on Central Government grants.

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Annexure I: Abridged Balance Sheet

Figures in Rs. Crore	Half Yearly as on 30.09.2009	2009	2008	2007
SOURCES OF FUNDS				
Shareholders' Funds	679.9	667.9	620.9	660.3
Share Capital	120.3	120.3	100.3	100.3
Reserves and Surplus	559.6	547.6	520.66	560
Loan Funds	7379.7	8846.8	9816	9159
Bonds	4771.5	5476.5	6200	5660
Secured Loans	584.1	684.8	867	103
Unsecured Loans	2024	2685.5	2748	2470
TOTAL	8059.6	9514.7	10437	9819.9
APPLICATIONS OF FUNDS				
Net Fixed Assets	22.3	22.8	23.8	2.30
Investments	220.7	220.2	223.8	194.6
Current Assets, Loans & Advances	8601.6	9919	10781.7	10097.6
Less: Current Liabilities and Provisions	787.2	649.6	593	489.6
Net Current Assets	7814.4	9269.5	10188.5	9608
Deferred Tax Assets (Net)	2.08	2.08	0.66	14.8
TOTAL	8059.62	9514.7	10437	9819.9

Annexure II: Abridged Profit and Loss

Figures in Rs. Crore	Half Yearly as on 30.09.2009	2009	2008	2007
Income of which:				
Interest Income	410.8	852.4	950	921.7
Other Income	0.97	2.86	4	8
WIP – Sankalpa Housing Project	26.4	41.7	18.4	0.6
WIP – Dream Commercial Project	-	4.1	-	-
Total Income	438.2	897.5	972.6	930.4
Expenditure of which:				
Interest Expense	377.5	807.5	935.4	903.3
Financial Expense	0.08	1.97	9.32	6.80
Administrative and other Expense	25.4	42	17.8	1.13
Diminution in value of MF Investment	(0.36)	4.2	-	-
Provision for doubtful/sub-standard assets	144.9	-	-	-
Total expenditure	417	855.7	962.5	911.6
Operating Profit	21.12	41.7	10.15	18.8
Profit before tax	22.5	39	14.2	19.9
Net Profit	12	25.5	12.6	11.69