

May 5, 2010

CARE REAFFIRMS RATING TO THE OUTSTANDING NON-SLR BOND ISSUES OF WEST BENGAL FINANCIAL CORPORATION

Rating Assigned

Instruments	Amount (Rs. crore)	Ratings ¹	Remarks
Non SLR Bond	12.36	CARE BBB+ (SO) *	Reaffirmed
Non SLR Bond	9.26	CARE BBB+ (SO) *	Reaffirmed
Total Instruments	21.62		

* The rating is primarily based on credit enhancement in the form of unconditional and irrevocable guarantee of the Government of West Bengal (GoWB) for repayment of principal and payment of interest during the full tenure of such bonds.

Rating Rationale

The above ratings factor in the persistent high levels of revenue and fiscal deficits of GoWB, continued high level of committed expenditure, high debt level in relation to revenue receipts, improving but relatively low debt-servicing indicators, gradual increase in the pace of industrialisation in the State of West Bengal, steady growth in NSDP, improving trend in GoWB finances in the last four years and steps being taken by GoWB to improve its present financial position by containing revenue expenditure and boosting up recovery of user charges. The rating also takes into account weak financials including losses incurred by WBFC in FY09, declining but high NPA level, low Capital Adequacy Ratio (CAR), low collection efficiency but satisfactory debt servicing track record, infusion of equity capital by GoWB and available business opportunity due to Government focus on SME (Small & Medium Enterprises) sector lending.

About WBFC

WBFC, a state financial corporation incorporated in 1954 and acting under the administrative control of the finance department, GoWB, is in the business of providing medium and long-term credit to micro and SME sector in West Bengal.

WBFC incurred a net loss of Rs.6.2 crore on total income of Rs.54.3 crore in FY09, against a net loss of Rs.12.7 crore on a total income of Rs.50.5 crore in FY08. The improvement in the level of income and reduction in losses was due to improvement in the interest spread as well as incidence of lower provision for NPAs. Generally, WBFC has low overall collection efficiency and high NPAs. CAR was very low at 4.03% as on Mar.31, 2009.

About GoWB

GoWB's fiscal position continued to remain weak with high Revenue Deficit (RD). Interest expense formed around 32% of revenue receipt and committed expenditure (salaries, pensions, interest) was around 77% of revenue receipt for FY09 (RE). Total outstanding liabilities of GoWB grew at a CARG of 8.3% during FY06 to FY09 (RE) mainly on account of substantial increase in internal debt and loan against NSS Fund, which grew at a CARG of 18.1% and 6.1% respectively. As on Mar.31, 2009, outstanding debt stood at Rs.1,437 bn. (RE). Despite significant increase in RR, huge borrowings over the years have placed GoWB at a high Debt/RR position (which was 3.5 in FY09 (RE)). In FY08 the liquidity position also seemed to be tight. Accordingly, W&M advance and overdraft availed by GoWB was significantly high at Rs.24.5 bn and Rs.60.5 bn respectively. However, the higher allocations as per the recommendations by 13th Finance Commission is likely to improve the liquidity position of GoWB.

¹Complete definition of the ratings assigned are available at www.careratings.com and in other CARE publications.

The State is yet to undertake some reform oriented measures such as enactment of FRBM Act which will outline a path towards consistent reduction in revenue and fiscal deficits and lead towards improvement in state fiscal position. The State Government would also need to improve private investment scenario and the infrastructural facilities.

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CARE classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries /regulators or others are welcome to write to care@careratings.com for any clarifications.

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