

April 30, 2021

Gujarat State Electricity Corporation Limited: Ratings reaffirmed at [ICRA]AA-(Stable)/A1+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term Fund Based Limits	525.00	525.00	[ICRA]AA-(Stable); Reaffirmed
Long Term Loan	6638.26	1419.04	[ICRA]AA-(Stable); Reaffirmed
Long Term Non-Fund Based Limits	389.00	389.00	[ICRA]AA-(Stable); Reaffirmed
Short Term Fund Based Limits	1000.00	1000.00	[ICRA]A1+; Reaffirmed
Short Term Non-Fund Based Limits	1014.15	1014.15	[ICRA]A1+; Reaffirmed
Long Term/Short Term Unallocated	5243.69	10462.91	[ICRA]AA-(Stable)/A1+; Reaffirmed
Total	14810.10	14810.10	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation of Gujarat State Electricity Corporation Limited (GSECL) takes into account the healthy financial position of the state power sector utilities in Gujarat supported by consistently strong cash collections and improving efficiency levels in the distribution segment. With continuing profitable operations and sharp reduction in its debt level, following the pre-payment of external debt, consolidated leveraging (Total Debt/OPBDITA) improved to 1.5x in FY2020 over 2.8x in FY2019. The consolidated debt is expected to come down further in FY2021 with pre-payment of additional loans from healthy cash accruals. ICRA takes further comfort from the high budgetary allocation towards power subsidy as well as timely subsidy payment from the State Government of Gujarat (GoG), timely tariff revisions with Fuel and Power Purchase Cost Adjustment (FPPCA) mechanism in place and overall strong financial flexibility of Gujarat Urja Vikas Nigam Limited (GUVNL) – parent of GSECL. The rating also factors in the declining transmission and distribution (T&D) loss levels of the four GUVNL distribution companies (discoms) over the years due to several measures undertaken to improve the efficiency of the network and reduce thefts and unmetered sales.

The ratings are, however, constrained by the fact that absolute subsidy dependence for the sector still remains high, implying that timely receipt of subsidy from the GoG remains critical. Moreover, actual release of subsidy (which is in line with budgetary provisions) had remained lower than the actual claims over the years, leading to a build-up of pending subsidy dues to Rs. 4,664 crore till March 2016. ICRA takes positive note of the relatively higher subsidy allocations made to GUVNL by the state government in the revised budget estimates for FY2018, FY2019 and FY2020, which has brought down the unpaid subsidy dues to Rs. 2,079 crore as on March 31, 2020 and is expected to decline further by March 31, 2021. However, the company remains exposed to the possibility of under-recoveries due to higher subsidy requirement than the budgetary allocation in case of any adverse monsoons or when GUVNL's operational efficiencies weaken. ICRA notes that while GUVNL expects the GoG to gradually bring down the outstanding subsidy receivables, any significant delays or inadequacy in release of subsidy payments from the GoG continues to remain a key rating sensitivity. Also, on a consolidated basis, ICRA notes that the utilities remain exposed to financing and project risks associated with the sizeable capex plans at GUVNL in the distribution and transmission segments as per the multi-year tariff (MYT) order of March 2017, which would imply a continued reliance on debt for funding capex. ICRA, however, notes that capex in FY2021 is expected to be lower than the approved levels, given the uncertainties of the ongoing Covid-19 pandemic. ICRA further notes that in spite of an improvement in the efficiency levels in the power generation segment in FY2020 over previous years, they still remain lower than the normative targets set by the regulator. Coupled with higher operating overheads, this affects the overall returns for GUVNL. The ratings also remain constrained by the risk associated with the liability that may arise for the one-time compensatory payment to be made to

major power producers for ongoing disputes. The quantum of the liability and its impact on the cash flows of GUVNL would be a key monitorable.

The Stable outlook reflects ICRA's expectations that GUVNL will continue to demonstrate strong operational performance over the medium term supported by capex (as approved by the Gujarat Electricity Regulatory Commission, or GERC) undertaken to improve the efficiency levels in all segments of operations—i.e., generation, transmission and distribution.

Key rating drivers and their description

Credit strengths

Healthy collections; improving trend in loss levels over the years - GUVNL's collections from consumers has grown by 6% YoY to Rs. 54,710 crore in FY2020 from Rs. 51,802 crore in FY2019, primarily backed by increase in the FPPCA rate, even as the total units sold dropped marginally due to the adverse impact of the lockdown in March 2020. The units sold and the cash collections are expected to be lower in FY2021 due to the adverse impact of the pandemic. The cash collections as a percentage of revenue assessed have also remained high at ~99% for FY2020. Also, GUVNL has witnessed continuous improvement in its efficiency parameters with the T&D loss levels for the sector improving to 14.77% in FY2020 from 18.29% in FY2019.

Timely subsidy release by GoG to GUVNL as per budgetary allocation for the year; received on quarterly basis - On a relative basis, till FY2018, subsidy booked as a proportion of total collections had been declining over the years and had stood at about 9.9% in FY2018 (against 13.0% in FY2016). The ratio was lower in FY2018 as GUVNL only booked the actual subsidy receipt over that in FY2016, when the subsidy booked was higher than the actual subsidy received. However, in FY2019 and FY2020, the GoG paid most of the subsidy claimed by GUVNL, unlike in previous years and, hence, the subsidy booked was much higher than the previous year. The total subsidy allocation (excluding arrears) by the GoG was Rs. 6,682 in FY2020 over Rs. 4,407 crore in FY2018. As a result, the ratio of subsidy booked to total collections jumped to 12.9% in FY2020. Moreover, GUVNL was paid Rs. 1,167 crore additional subsidy by GoG in FY2020 against the outstanding receivables. The subsidy receipts continue to remain timely and are received on a quarterly basis in advance.

Regulatory clarity, timely issuance of tariff orders and timely tariff revisions ensure adequate pass through of cost variations - The utilities had submitted the MYT petition for the control period of FY2017-FY2021 to GERC in November 2016. On March 31, 2017, GERC issued the MYT order including the projected allowed levels for the control period of FY2017-FY2021, giving regulatory clarity for the sector over the period. Likewise, annual finalisation of accounts, filing of tariff petitions, issuance of tariff orders and implementation of tariff revisions continued in a timely manner. The last tariff order was issued on March 31, 2021 with true-up of FY2020 and tariff determination for FY2022. The automatic adjustment of increase in fuel costs through the FPPCA route also ensures the smooth and profitable functioning of the sector.

Strong financial flexibility; improving leveraging levels - Overall, on a consolidated basis, the state power sector continued to report profits at a net level, albeit with subsidy. The cash accruals for the sector as a whole remained healthy at Rs. 5,904 crore in FY2020. Strong accruals have allowed GUVNL to pre-pay a significant portion of its long-term debt in FY2020 and the overall debt declined to Rs. 11,423 crore as on March 31, 2020 from Rs. 17,299 crore as on March 31, 2019. Debt servicing indicators continued to remain satisfactory as reflected in gearing of 0.4x and NCA/Total Debt at 52% for the period ended March 31, 2020, over 0.6x and 26%, respectively, for the previous year. With lower debt and healthy profitability, the leveraging improved to 1.5x in FY2020 from 2.8x in FY2019.

Credit challenges

High levels of unpaid subsidy from GoG for previous years; subsidy dependence on the state remains high - The absolute level of subsidy dependence on the GoG has been increasing with the increase in power purchase cost and was nearly Rs. 7,000 crore in FY2020. While the subsidy receipt has been timely, the actual claims by GUVNL have remained higher than the budgetary allocation in the past and as a result, outstanding subsidy receivable from the GoG had built up to Rs. 4,664 crore till March 2016. Additional subsidy allocation of Rs. 1,242 crore, Rs. 176 crore and Rs. 1,167 crore, made to GUVNL by the GoG in the revised estimates for the FY2018, FY2019 and FY2020 budget, respectively, resulting in the unpaid subsidy receivable reducing from Rs. 4,664 crore to Rs. 2,079 crore as on March 31, 2020. ICRA takes positive note of the additional

subsidy allocation of ~Rs. 1,000 crore in the revised budget estimates for FY2021, which would further bring down the subsidy receivable.

Large overall capex plans for the sector to keep financing requirement high - In FY2020, capex amounting to Rs. 7,582 crore was incurred, of which Rs. 3,947 crore was incurred by GSECL and Gujarat Energy Transmission Company Ltd. (GETCO) combined, while the remaining was undertaken by the discoms. Among the discoms, PGVCL accounted for about 50% of total discom capex in FY2020. A bulk of the current and future capex is expected to be undertaken by GETCO (system strengthening) and PGVCL (loss reduction), largely financed by a mix of Government grants, subsidy, debt, equity and internal accruals. ICRA, however, draws comfort from GUVNL's strong financial flexibility as well as timely receipt of subsidy, equity (Rs. 3,285 crore in FY2020) and grants (Rs. 548 crore in FY2020) from the GoG, which have supported its expansions. ICRA also notes that capex in FY2021 is expected to be lower than the approved levels, given the uncertainties of the ongoing Covid-19 pandemic.

Generation units operating at weak efficiency levels dampen overall returns - In spite of an improvement in the efficiency levels in the power generation segment in FY2020 over previous years, the operational efficiency parameters (in terms of Plant Availability Factor or PAF, PLF, auxiliary consumption and Station Heat Rate, or SHR) of a large number of GSECL's power stations still remain lower than normative targets set by the regulator due to the vintage of the plants. Coupled with higher operating overheads, this affects the overall returns for GUVNL.

Risk associated with one-time payment for cancellation of PPA - GUVNL had a 1000-MW PPA with Adani Power Mundra Ltd., which was terminated as per an order issued by the Supreme Court in July 2019. Based on the order, GUVNL could face a significant liability for the past periods for which it drew power. The exact amount of liability is still being ascertained by the CERC. However, GUVNL has once again contested the issue in Supreme Court. The quantum of the liability and its impact on the cash flows of GUVNL would be a key monitorable.

Liquidity position: Strong

At a consolidated level, GUVNL's liquidity position remains **strong** with a healthy annual fund flow from operations of Rs. 5,841 crore in FY2020 and surplus free cash and liquid investments of Rs. 238 crore as on March 31, 2020. The company had a sanctioned fund-based working capital facility of Rs. 2,575 crore as on December 31, 2020, the average utilisation of which remained low at less than 10% over the past 12 months. The liquidity is also supported by the constant sizable support available from the GoG by way of subsidy, equity and capital grants.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if there is an improvement in the credit profile of GoG, or if there is significant reduction in subsidy dependence on the state government, coupled with sustained improvement in operational efficiencies.

Negative factors – Negative pressure on the rating could arise if there is a deterioration in the credit profile of the GoG, or if there are any significant operational under-recoveries or sustained increase in the AT&C loss levels for the distribution utilities of GUVNL.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Power Distribution Utilities
Parent/Group Support	The assigned rating factors in the systemic importance that GUVNL (consolidated) holds, which we expect should induce the GoG to extend timely financial support to the rated entity, should there be a need.
Consolidation/Standalone	For arriving at the ratings, ICRA has taken a consolidated view of the state-owned power sector utilities in Gujarat, which consists of GUVNL (holding company) and its six subsidiaries, Gujarat State Electricity Corporation Limited (GSECL), Gujarat Energy Transmission Corporation Limited (GETCO), Dakshin Gujarat Vij Company Limited (DGVCL), Madhya Gujarat Vij Company Limited (MGVCL), Uttar Gujarat Vij Company Limited (UGVCL) and Paschim Gujarat Vij Company Limited (PGVCL), given the close business, financial and managerial linkages among them (details in Annexure-2).

About the company

The State Government of Gujarat unbundled and restructured the Gujarat Electricity Board with effect from April 1, 2005. The generation, transmission and distribution businesses of the erstwhile Gujarat Electricity Board were transferred to seven successor companies. These successor companies were formed on functional lines into four distribution companies (along regional lines), one transmission entity, one generating entity and a holding company, as listed below:

Holding Company	Gujarat Urja Vikas Nigam Limited (GUVNL)
Subsidiary: Generation	Gujarat State Electricity Corporation Limited (GSECL)
Subsidiary: Transmission	Gujarat Energy Transmission Corporation Limited (GETCO)
Subsidiaries: Distribution	Dakshin Gujarat Vij Company Limited (DGVCL) Madhya Gujarat Vij Company Limited (MGVCL) Uttar Gujarat Vij Company Limited (UGVCL) Paschim Gujarat Vij Company Limited (PGVCL)

GUVNL is the holding company of all unbundled entities with the responsibility for bulk purchase of electricity and sale to four discoms and other private distribution licensees. In addition, the company is responsible for overall co-ordination and supervision of its subsidiary companies, which also include raising and managing the overall loan portfolio on their behalf.

GSECL was an independent power producer of the GoG, but since the restructuring, it has become a 100% subsidiary of GUVNL. It is now the state generation utility and supplies 100% of the power generated to GUVNL.

GETCO was incorporated as the state transmission utility as part of the re-organisation exercise and is a wholly-owned subsidiary of GUVNL. It is also responsible for load dispatch functions within the state for all government and private electricity entities in Gujarat. GETCO entered into a joint Transmission Service Agreement with GUVNL and the discoms for power transmission.

DGVCL is a wholly-owned subsidiary of GUVNL. It is engaged in the distribution of electricity in seven districts (Bharuch, Narmada and Surat, except parts of Surat City, Tapi, Dangs, Navsari and Valsad) in South Gujarat.

MGVCL is a wholly-owned subsidiary of GUVNL. It is engaged in the distribution of electricity across five districts (Panchmahal, Dahod, Vadodara, Anand and Kheda) in Central Gujarat.

UGVCL is a wholly-owned subsidiary of GUVNL. It is engaged in the distribution of electricity in six districts (Ahmedabad, Sabarkantha, Banaskantha, Patan, Mehsana and Gandhinagar) in North Gujarat.

PGVCL is a wholly-owned subsidiary of GUVNL. It is engaged in the distribution of electricity in eight districts (Rajkot, Jamnagar, Junagadh, Porbandar, Bhuj, Bhavnagar, Surendranagar and Amreli) in West Gujarat.

Key financial indicators (audited) - Consolidated

JAOL Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	50,959	53,911
PAT (Rs. crore)	928	1,493
OPBDIT/OI (%)	12.0%	14.3%
RoCE (%)	7.1%	10.0%
Total Outside Liabilities/Tangible Net Worth (times)	2.0	1.7
Total Debt/OPBDIT (times)	2.8	1.5
Interest Coverage (times)	3.7	5.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2020 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Apr 30, 2021	-	Mar 19, 2020	Mar 20, 2019
1	Long Term Fund Based Limits	Long term	525.00	-	[ICRA]AA-(Stable)	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
2	Long Term Loan	Long term	1419.04	1419.04	[ICRA]AA-(Stable)	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
3	Long Term Non-Fund Based Limits	Long term	389.00	-	[ICRA]AA-(Stable)	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
4	Short Term Fund Based Limits	Short Term	1000.00	-	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+
5	Short Term Non-Fund Based Limits	Short Term	1014.15	-	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+
6	Long Term/Short Term Unallocated	Long Term/Short Term	10462.91	-	[ICRA]AA-(Stable)/A1+	-	[ICRA]AA-(Stable)/A1+	[ICRA]AA-(Stable)/A1+

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
NA	Long Term Fund Based Limits	-	-	-	525.00	[ICRA]AA-(Stable)
NA	Long Term Loan	August 2011	-	2030	1419.04	[ICRA]AA-(Stable)
NA	Long Term Non-Fund Based Limits	-	-	-	389.00	[ICRA]AA-(Stable)
NA	Short Term Fund Based Limits	-	-	-	1000.00	[ICRA]A1+
NA	Short Term Non-Fund Based Limits	-	-	-	1014.15	[ICRA]A1+
NA	Long Term/Short Term Unallocated	-	-	-	10462.91	[ICRA]AA-(Stable)/A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	GUVNL Ownership	Consolidation Approach
Gujarat Urja Vikas Nigam Limited (GUVNL)	100.00%	Full Consolidation
Dakshin Gujarat Vij Company Limited (DGVCL)	100.00%	Full Consolidation
Madhya Gujarat Vij Company Limited (MGVCL)	100.00%	Full Consolidation
Uttar Gujarat Vij Company Limited (UGVCL)	100.00%	Full Consolidation
Paschim Gujarat Vij Company Limited (PGVCL)	100.00%	Full Consolidation
Gujarat State Electricity Corporation Limited (GSECL)	100.00% (rated entity)	Full Consolidation
Gujarat Energy Transmission Corporation Limited (GETCO)	100.00%	Full Consolidation

Source: GUVNL annual report

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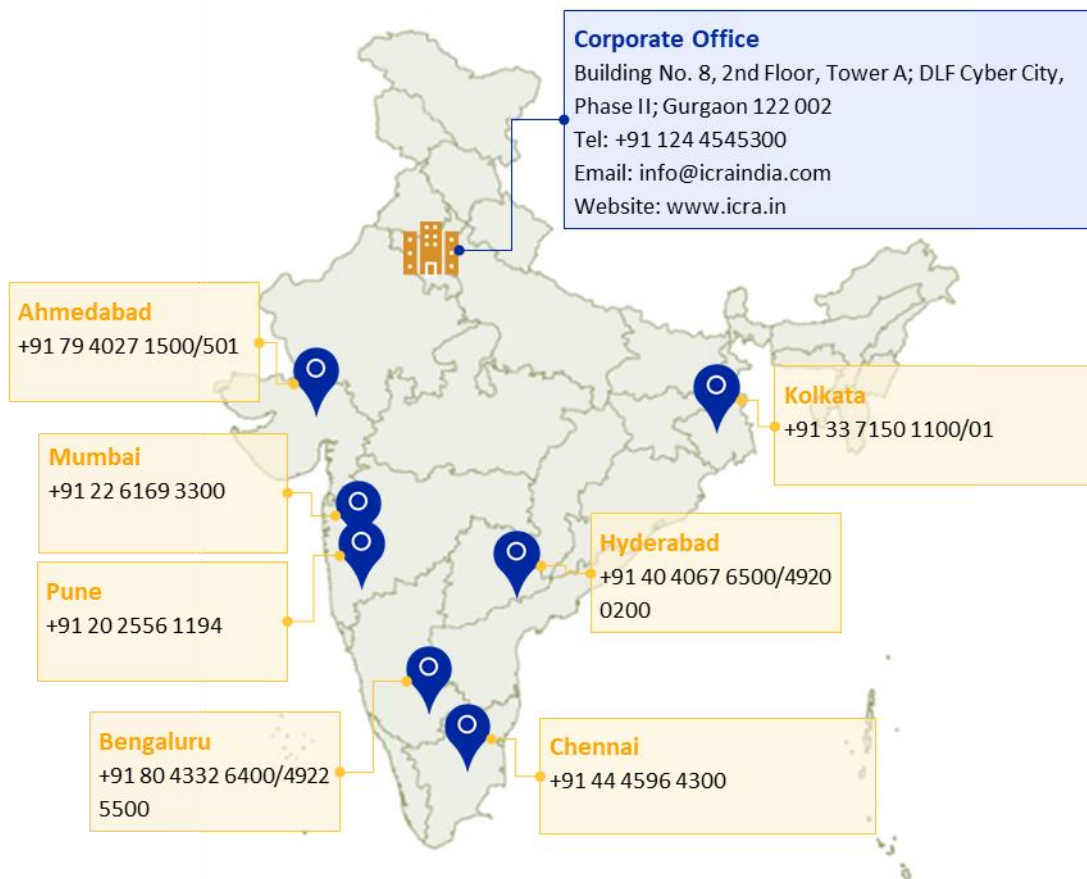


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