

April 11, 2022

Madhya Gujarat Vij Company Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term Loans	17.00	3.00	[ICRA]AA- (Stable); reaffirmed
Long-Term Fund-Based Limits	375.00	375.00	[ICRA]AA- (Stable); reaffirmed
Long-Term Non-Fund Based Limits	48.00	47.00	[ICRA]AA- (Stable); reaffirmed
Short-Term Non-Fund Based Limits	37.00	37.00	[ICRA]A1+; reaffirmed
Long Term/Short Term Unallocated Limits	25.00	40.00	[ICRA]AA- (Stable)/[ICRA]A1+; reaffirmed
Total	502.00	502.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation of Gujarat Urja Vikas Nigam Limited (GUVNL) at a consolidated level takes into account the healthy financial position of the state power sector utilities of Gujarat supported by consistently strong cash collections and improved efficiency levels in the distribution segment over the years. GUVNL's consolidated leveraging (total debt/OPBDITA) improved to 0.8 times in FY2021 from 1.5 times in FY2020 backed by continuing profitable operations and a sharp reduction in its debt level following the pre-payment of external debt. 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 the fuel and power purchase cost adjustment (FPPCA) mechanism in place and the overall strong financial flexibility of GUVNL. 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 taken to improve the efficiency of the network and reduce thefts and unmetered sales.

The ratings are, however, constrained by the fact that the sector's dependence on subsidy still remains high, implying that the timely receipt of subsidy from the GoG remains critical. GUVNL also remains exposed to the possibility of under-recoveries due to higher subsidy requirement than the budgetary allocation in case of any adverse monsoon trend or if GUVNL's operational efficiencies weaken. ICRA notes that while GUVNL expects the GoG to gradually bring down the outstanding subsidy receivables, which stood at Rs. 4,445 crore as on March 31, 2021, any significant delays or inadequacy in release of subsidy payments from the GoG continues to be a key rating sensitivity. Also, on a consolidated basis, ICRA notes that the utilities remain exposed to financing and project risks associated with sizeable capex plans. ICRA further notes that despite the improvement in efficiency levels in the power generation segment in FY2021 over previous years, they still remain lower than the normative targets set by the regulator. The lower generation, coupled with higher operating overheads, affects GUVNL's overall returns.

ICRA also notes that on February 8, 2022, the Supreme Court of India disposed of the curative petition filed by GUVNL against Adani Power Mundra Limited (APMuL) and noted that the parties would be bound inter se in terms of their settlement deed. As per the settlement deed, APMuL and GUVNL are not to claim any compensation in terms of the Supreme Court judgment for the termination of the Bid-2 power purchase agreement (PPA). Both the parties have now agreed to resolve all disputes and withdraw all related pending cases/petitions and claims filed by either side against each other and recommence power

from the cancelled Bid-2 PPA and its connected supplementary power purchase agreements (SPPAs), (which stood terminated by decision of the Supreme Court dated July 2, 2019). The terms at which the supply of power would recommence for the 2,434 MW capacity, will be critical for GUVNL.

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 remain healthy though they declined by ~12% year-on-year (YoY) in FY2021 to Rs. 48,091 crore from Rs. 54,710 crore in FY2020 owing to the effects of Covid-19, which had lowered demand from industrial customers. Notwithstanding this, the collections have significantly improved in the current fiscal driven by the revival in demand from industrial customers and are expected to stay at around Rs. 58,000 crore for full year FY2022. Also, GUVNL has witnessed continuous improvement in its efficiency parameters with the T&D loss levels improving over the years to 16.00% in FY2021 from 20.35% in FY2016. Further, the distribution losses for all the discoms remained within the approved levels in FY2021.

Timely subsidy release by GoG to GUVNL as per budgetary allocation for the year - On a relative basis, till FY2018, the subsidy booked as a proportion of total collections had been declining over the years and was around 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, wherein the subsidy booked was higher than the actual subsidy received. However, over FY2019-FY2021, 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 years. The total subsidy allocation (excluding arrears) by the GoG was Rs. 6,745 crore in FY2021 over Rs. 6,682 crore in FY2020. As a result, the ratio of subsidy booked to the total collections remained high at ~14% in FY2021. The subsidy receipts continue to be timely and are received on a quarterly basis in advance.

Regulatory clarity and timely issuance of tariff orders and tariff revisions ensure adequate pass-through of cost variations - The utilities had submitted the multi-year tariff (MYT) petition for the control period of FY2017-FY2021 to GERC in November 2016. On March 31, 2017, the GERC issued the MYT order, including the projected allowed levels for the control period of FY2017-FY2021, which has now been extended till FY2023, giving regulatory clarity for the sector over the period. Likewise, the annual finalisation of accounts, filing of tariff petitions, issuance of tariff orders and implementation of tariff revisions were on time. The last tariff order was issued on March 31, 2022 with true-up of FY2021 and tariff determination for FY2023. 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, GUVNL continued to report profits at the net level, although with subsidy. The consolidated cash accruals remained healthy at Rs. 6,912 crore in FY2021. Strong accruals allowed GUVNL to prepay a significant portion of its long-term debt in FY2021 and the overall debt declined to Rs. 7,408 crore as on March 31, 2021 from Rs. 11,426 crore as on March 31, 2020. The debt servicing indicators remained satisfactory, reflected in a gearing of 0.2 times and NCA/total debt at 93% for the period ended March 31, 2021, over a gearing of 0.4 times and NCA/total debt of 51% for the previous year. With lower debt and healthy profitability, the total debt/OPBDITA improved to 0.8 times in FY2021 from 1.5 times in FY2020.

Credit challenges

Subsidy dependence on state remains high - The absolute level of subsidy dependence on the GoG remained high at ~Rs. 6,745 crore (~13% of the revenue) in FY2021; however, the subsidy receipt has been timely on a quarterly basis. The outstanding subsidy built-up from GoG was Rs. 4,445 crore as on March 31, 2021. Further, for FY2022, the total fund allocation by the GoG for GUVNL is Rs. 14,080 crore which includes Rs. 10,128 crore (including water works) as subsidy, Rs. 3,710 crore as equity share capital and Rs. 241 crore as grants. Of these allocations, GUVNL has received a subsidy of Rs. 6,100 crore, equity share capital of Rs. 2450 and a grant of Rs. 226 crore till February 2022; the rest of the amount is expected to be received by the end of March 2022.

Large overall capex plans for the sector - In FY2021, the capex amounting to Rs. 5,721 crore was incurred, of which, Rs. 3,356 crore was incurred by Gujarat State Electricity Corporation Ltd (GSECL) and Gujarat Energy Transmission Company Ltd (GETCO) combined. Among the discoms, Paschim Gujarat Vij Company Limited (PGVCL) accounted for about 42% of the capex in FY2021. A bulk of the current and future capex is expected to be undertaken by GSECL (mainly renewable capacity addition), GETCO (system strengthening) and PGVCL (loss reduction). ICRA, however, draws comfort from GUVNL's strong financial flexibility and timely equity infusion/grants, which have supported its expansion.

Generation units operating at weak efficiency levels dampen overall returns – Despite the improvement in the efficiency levels in the power generation segment in FY2021 over the 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 the normative targets set by the regulator due to the vintage of the plants. The lower generation, along with the higher operating overheads, affects GUVNL's overall returns.

Liquidity position: Strong

The liquidity profile of GUVNL is strong, marked by healthy cash accruals (including subsidy), owing to which the debt levels have reduced in recent years. The debt level came down to Rs. 7,408 crore in FY2021 from Rs. 19,198 crore in FY2018. Further, in FY2022, the total debt declined to Rs. 4,772 crore as on January 31, 2022, aided by regular repayments and prepayment of around Rs. 1,700 crore in the fiscal. At the end of FY2022, the total outstanding debt is expected to be around Rs. 4,500 crore. Also, GUVNL has significant cushion in working capital limits, marked by almost nil utilisation over the 19-month period from July 2020 to January 2022. Further, the liquidity is also supported by constant support from the GoG by way of subsidy, equity and capital grants.

Rating sensitivities

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

Negative factors: Negative pressure on the ratings could arise if the credit profile of the GoG deteriorates, 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 Approach - Consolidation Rating Methodology for Power Distribution Utilities Rating Methodology - Power Transmission Rating Methodology - Thermal Power
Parent/Group Support	The assigned rating factors in the systemic importance that GUVNL (consolidated) holds, which is expected to induce the GoG to extend timely financial support to the rated entity, should there be a need.
Consolidation/Standalone	To arrive 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 the 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

	GUVNL Consolidated	
	FY2020	FY2021
Operating Income (Rs. crore)	53,697	50,879
PAT (Rs. crore)	1,272	1,892
OPBDIT/OI (%)	14.2%	17.6%
PAT/OI (%)	2.4%	3.7%
Total Outside Liabilities/Tangible Net Worth (times)	1.9	1.6
Total Debt/OPBDIT (times)	1.5	0.8
Interest Coverage (times)	5.1	8.9

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 (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2022 (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Apr 11, 2022	Apr 30, 2021	-	Mar 19, 2020
1	Term Loans	Long term	3.00	1.59	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-	[ICRA]AA- (Stable)
2	Fund-Based Limits	Long Term	375.00	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-	[ICRA]AA- (Stable)
3	Non-Fund Based Limits	Long Term	47.00	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-	[ICRA]AA- (Stable)
4	Non-Fund Based Limits	Short Term	37.00	-	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+
5	Unallocated Limits	Long Term/ Short Term	40.00	-	[ICRA]AA- (Stable)/[ICRA]A1+	[ICRA]AA- (Stable)/A1+	-	[ICRA]AA- (Stable)/A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Fund Based Limits	Simple
Non-Fund Based Limits	Very Simple
Unallocated Limits	Not Applicable

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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Bank Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-Term Loans	FY2015	NA	FY2023	3.00	[ICRA]AA- (Stable)
NA	Long-Term Fund-Based Limits	NA	NA	NA	375.00	[ICRA]AA- (Stable)
NA	Long-Term Non-Fund Based Limits	NA	NA	NA	47.00	[ICRA]AA- (Stable)
NA	Short-Term Non-Fund Based Limits	NA	NA	NA	37.00	[ICRA]A1+
NA	Long Term/Short Term Unallocated Limits	NA	NA	NA	40.00	[ICRA]AA- (Stable)/[ICRA]A1+

Annexure-2: List of entities considered for consolidated analysis:

Company Name	GUVNL's Ownership	Consolidation Approach
Gujarat Urja Vikas Nigam Limited (GUVNL)	Holding Entity	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%	Full Consolidation
Gujarat Energy Transmission Corporation Limited (GETCO)	100.00%	Full Consolidation

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